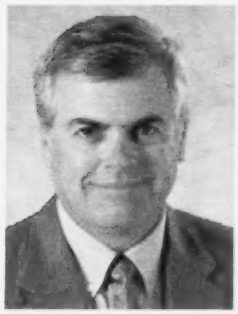
FINANCIAL CONDITION & PERFORMANCE

Photographer: Bryan Pereira



A MESSAGE FROM THE DEPUTY CITY MANAGER & CHIEF FINANCIAL OFFICER

CAM WELDON

The 2009 Annual Financial Report for the City of Toronto provides the details on the City's financial performance over the past year and gives highlights of the progress that has been made towards achieving major goals for Toronto's residents and businesses.

This year's financial statements are quite different from prior years due to the introduction of new accounting standards for municipalities. For the first time in history, the City will now disclose its capital assets in the financial statements as well as its financial assets.

Many of the city services that Toronto's residents and businesses depend on require huge investments in capital infrastructure such as roads, subways, waterworks, parks, recreation facilities and affordable housing to name just a few. On a historical cost basis, these and other capital asset investments total $18.4 billion. The replacement value of these assets is much higher.

Recognizing the value of our capital assets in the financial statements demonstrates the importance of these past investments in delivering future services. Amortizing the cost of these assets over time reminds us that as the infrastructure ages and is consumed, we have to plan for its eventual replacement.

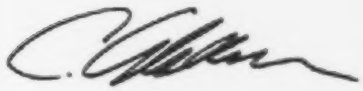
It has been a long journey to implement the capital asset accounting changes. Identifying, valuing, and amortizing our capital assets was a significant project, requiring a dedicated team, significant involvement by City divisions and considerable verification by our external auditors. I believe it was worth the effort. In many cases, the City already had asset management systems in place to monitor the state of good repair of our assets and to plan for their repair and replacement. This project has strengthened and expanded the City's capital asset management systems which will drive better and more comprehensive capital planning in the future.

The addition of capital assets to the financial statements has changed the nature of the statements as well. The results of our current year's operations is captured in the consolidated statement of operations and accumulated surplus. In addition to operating revenues and expenses, this statement includes a charge for the amortization of our capital assets and revenues received from other governments and third parties for capital purposes.

Our capital assets investment and disposition activities our outlined in the consolidated statement of net debt and is supplemented by a detailed note attached to the financial statements. Capital financing activities like the issuance and repayment of debt can be found in the consolidated statement of cash flows.

These new financial statements are simpler than the ones we reported in the past. They are now consistent with our federal and provincial counterparts who have been reporting on this basis for several years. The presentation is also much closer to the way the private sector discloses their financial results.

I am pleased to announce that for the third consecutive year, the City of Toronto has won the Government Finance Officers of America award for achieving excellence in financial reporting. Summarizing the financial results for a city as diverse and complex as Toronto is not an easy task and this award could not have been possible without work and dedication of the professional team that I have the privilege to work with every day.



Cam Weldon
Deputy City Manager & Chief Financial Officer

FISCAL CAPACITY

Toronto enjoys a well diversified economy, relatively low business costs, a well educated workforce and good liveability, which allows it to be well positioned to compete internationally. As well, the City's finances are independently confirmed on a regular basis by international credit rating agencies as being very sound. The City has a strong balance sheet, high levels of cash and an accumulated surplus of $14.8 Billion (Dec 31, 2009).

However, the City government's fiscal future may not be sustainable because of a structural funding shortfall which has been well documented and verified by independent authorities including the Conference Board of Canada.

The structural funding shortfall comprises two components:

- a cumulative component due to downloaded programs, and
- an annual component due to annual on-going operating shortfalls.

Simply put, the City is inappropriately funding certain income redistributive programs downloaded by the Province, and programs for which either other large mature cities do not fund or have appropriate source of funding. These programs are currently supported by the property tax only and include Ontario Works/Social Assistance, Social Housing, Transit (operating) and Court Security. In other jurisdictions such as U.S. cities, these programs are typically funded by a mix of income/sales taxes, and grants from other orders of government. As well, there are annual cost pressures from harmonization of services and standards, population growth, service enhancements, capital repair of ageing infrastructure and growing liabilities. These cost pressures are not adequately offset by revenue growth because the City's main revenue stream – property tax – does not grow with the economy. Also, to improve business competitiveness and to enhance jobs the City has embarked on a program for business tax relief, which is an additional cost. These have largely contributed to an annual funding shortfall and the use of ad hoc one-time funding in prior years, which has built up over time in cumulative pressures, as has been seen in the recent operating budgets. Staff estimated that the net average shortfall would range between $75 million and $100 million on an annual basis.

The operating pressures from the shortfall have begun to be partially offset by the phased-in upload of Ontario Works (by 2018) and provincial court security (by 2012). The two taxes approved under the City of Toronto Act implemented in 2008, namely Municipal Land Transfer Tax and Personal Vehicle Tax, also helped to diversify the revenue base and offset these pressures. Yet, despite Council's efforts to constrain salaries and benefits and restructure debt, and despite the important but largely pending phase out of social assistance and court security costs by the Province, the shortfalls continue. These have been offset in successive operating budgets using one time revenues such as ad hoc provincial transit operating funding and reserve draws. However, the complete permanent funding solution has not yet been achieved.

The 2008-2009 economic recession has put City's fiscal capacity under stress. Revenues and expenditures that were sensitive to the economic conditions created additional operating budget pressures. For example, Social Assistance (Ontario Works) caseload increased by about 22 per cent at the end of 2009 when compared with the 2008 average level, and at the same time the City's unemployment rate increased and peaked at 10.7 per cent in August 2009 vs the 2008 average of 7.5 per cent. On the other hand, declining commodity prices and low interest cost offset some of the budget pressures. It is expected that certain recessionary impacts (such as high unemployment) may continue into the next couple of years. However, the City's fiscal sustainability should not be negatively impacted by this recession over the long term.

The City has a comprehensive Long-Term Fiscal Plan, consisting of 25 financial strategies, 17 fiscal principles and five financial policies, which were initially approved by City Council in 2005. As indicated above much progress has been made. The City can be fiscally sustainable only if and when the remaining structural funding shortfall can be eliminated. In the next 10 years, it is important to take a number of key actions:

Expenditures:

- Continue actions on efficiencies, salary and benefit restraint
- Rationalize selected services

Assets and Liabilities:

- Maximize corporate asset values and pay down debt
- Continue to increase pay-as-you-go capital financing
- Take further actions to reduce unfunded liabilities

Revenues:

- Continue actions to grow tax base
  - Improve business competitiveness
  - Improve land use intensification for areas of population growth as laid out in the Official Plan
- Develop multi-year strategies for User Fees
- Seek permanent sustainable partnership funding from other orders of government
  - 50 per cent Transit Operating Funding
  - National Transit Strategy (capital)
  - Upload of Social Housing costs and a National Housing Strategy
  - Share of sales tax revenues (equivalent to 1 cent of 13 cent HST)

PHYSICAL INFRASTRUCTURE

The City owns a significant amount of physical assets, comprising roads, expressways, bridges, traffic signal controls, water and wastewater treatment facilities, distribution and collection pipes, reservoirs, pumping stations, subways, streetcars, buses, civic centres, recreation facilities, public housing buildings, parkland and other lands. This infrastructure, excluding land, is currently estimated to be worth in excess of $62 billion (replacement value). The City's capital program is driven largely by the costs of maintaining these physical assets in a state of good repair.

City's Infrastructure is Substantial

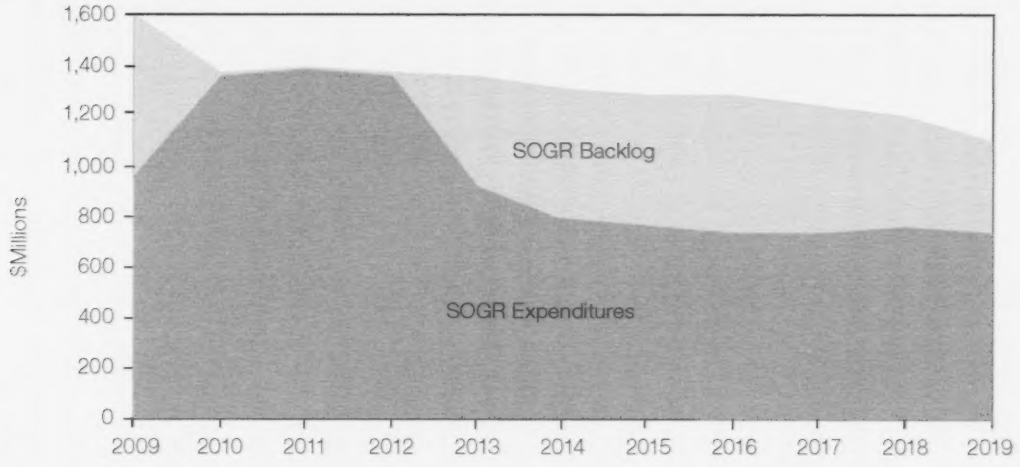
	Estimated Asset Replacement Value
Transportation Infrastructure	**$10 Billion**
Water & Wastewater Infrastructure	**$27 Billion**
Public Transit System	**$10 Billion**
Buildings, Facilities & Fleet	**$9 Billion**
Housing Infrastructure	**$6 Billion**
Total (excluding parkland and land)	**$62 Billion ++**

The City's road network, the majority of which was constructed in the 1950's and 1960's, is in need of ongoing repair and rehabilitation. The City's water and wastewater network is similarly aged — 50 per cent of the water pipes and 30 per cent of wastewater pipes are more than 50 years old, while 7 per cent of watermains and 3 per cent of wastewater infrastructure are more than 100 years old. Due to fiscal constraints, the City's historical spending in the capital program was less than ideal despite recent improvements. In addition, capital requirements resulting from population growth and demographic changes will add financial pressures. The City's 2002 Official Plan projects population growth of up to a million people in the City of Toronto, raising the population to 3.5 million people in 30 years. More buses, social housing, recreation centres, etc., are required, which will put pressures on the City's capital and operating budgets to provide additional services, and build and operate new facilities.

During the 2008-2009 recession, the federal and provincial governments introduced economic stimulus program funding (totalling $460 million over two years ending March 31, 2011) which leveraged the City's capital program and enabled the City to begin to renew the infrastructure that support City services. Staff estimated that the $25.8 billion capital plan (including Water and Solid Waste) would create or maintain 300,000 jobs over a 10-year term.

In setting the current Capital Budget and Plan, one of the principles is to ensure that available resources are utilized to mitigate State of Good Repair (SOGR) backlog for the maintenance, repair or replacement of existing assets, and to minimize risks associated with delayed maintenance of the City's ageing infrastructure. As the following chart indicates, SOGR backlog will begin to decrease in 2010, and by 2019 it will be reduced by 29 per cent (2009: $1.6 billion; 2019: $1.1 billion).

BACKLOG BEGINNING TO DECREASE IN 2010



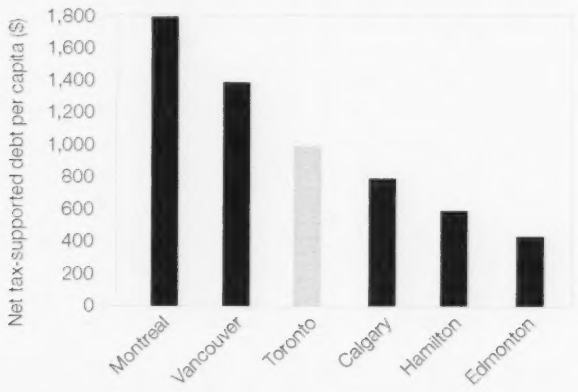
2010 Capital Budget & 10 year Capital Plan & Forecast
SOGR = State-of-Good-Repair

CAPITAL FINANCING AND DEBT

The City borrows to fund capital expenditures. (It cannot borrow to fund operating expenditures under the City of Toronto Act). Toronto has enjoyed relatively low debt levels; however, there is a sizeable gap between future capital expenditure needs and ongoing sustainable revenue sources. The City does not have the financial capacity for necessary growth related expenditures, e.g. TTC, Transportation, Social Housing, etc. For the next ten years, the TTC is projected to make up the majority of the new debt required to fund the City's capital requirement. In fact by 2014, no new debt is required to fund the City's programs except for the TTC.

Overall, the City's debt burden is relatively modest and its net tax-supported debt per capita is comparable to other major Canadian municipalities.

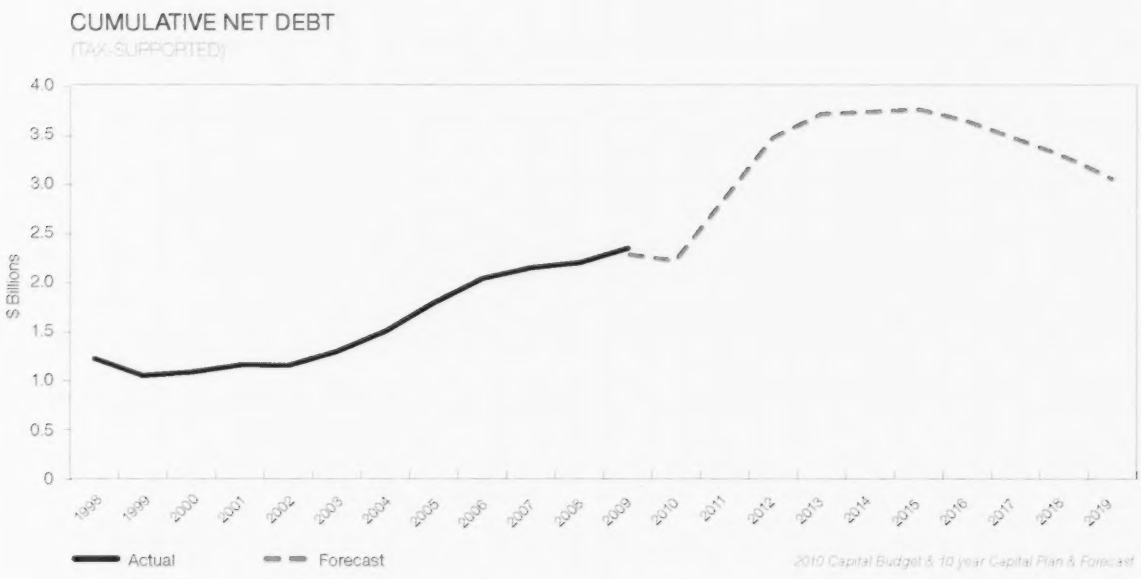
TORONTO'S NET DEBT IS COMPARABLE
TO OTHER MAJOR CANADIAN CITIES



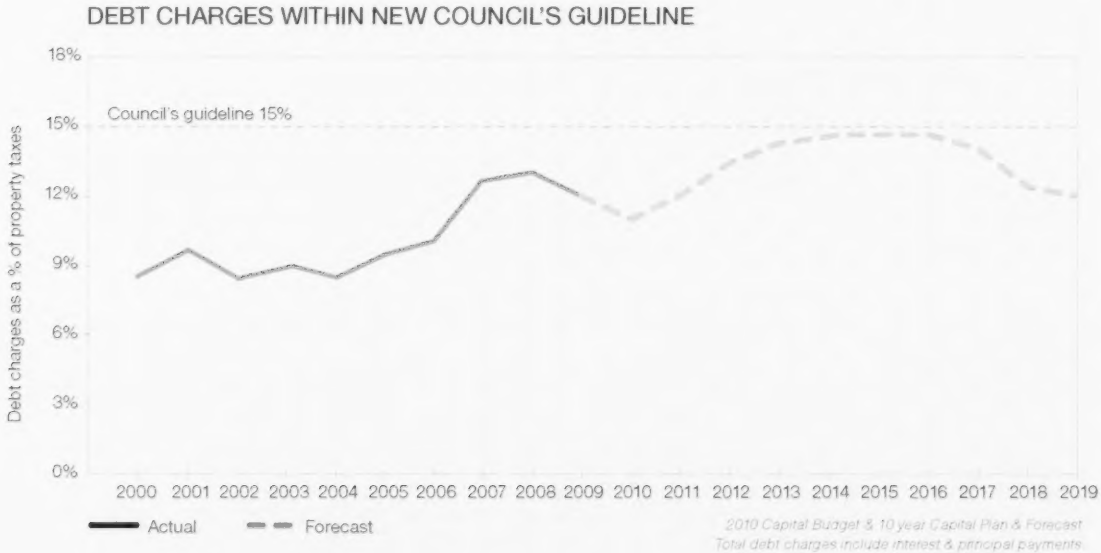
Source: DBRS Canadian Municipal Government Fact Sheet – July 2009

In 2007 Council approved the Financial Planning Process and a pilot of the 2008 Service Planning Process, which set the framework for developing multi-year capital and operating budgets, and ensured that limited resources are aligned to priorities to maximize the benefits for Toronto's residents.

Gas tax funding from the federal and provincial governments, as well as provincial transit funding has alleviated some of the capital financing pressures and will help to lessen future debt requirements. To properly fund the capital needs of the City over the next five years, meet affordability guidelines, protect the City's excellent credit rating and take advantage of the very low interest rates now available for longer-term loans, the City has a plan to finance parts of its current and future debt by paying down existing debt, and borrowing funds using debt terms that better match the useful life of the assets being acquired. The majority of projects will be financed using 10-year debt, since most of the capital budget is devoted to long-term rehabilitation of existing assets. For selected projects, 30-year debt will be used to finance long term assets such as subway tunnels and subway cars. As part of this approach, the City will use the proceeds of the Toronto Hydro promissory note, which had been dedicated to two specific areas of investment (Spadina subway and Waterfront development), and pay down approximately $600 million of existing debt. The projects previously funded from this reserve will be refinanced for that amount over a 30-year period and only when the funds are actually required. Current preliminary estimates show that the City's net debt (tax supported) would decrease from $2.4 billion at the end of 2009 to $2.3 billion by the end of 2010 before increasing to $3.1 billion by 2019 as shown in the chart below.



City Council has approved a debt service guideline such that the debt service cost should not exceed 15 per cent of property tax revenues in a given year. This limit means that at least 85 cents on each tax dollar raised is available for operating purposes. The debt refinancing strategy will help manage the pressures of debt repayment related to the annual operating budget. Repayment of principal and interest on the City's debt continues to be the second highest expense on the annual property tax bill. Lowering the annual debt payments, and spreading them out over a longer period, will allow the City to direct more property tax dollars to services each year. The current forecast shows that the City's debt charges will fall within this guideline in the next five years.


DEBT CHARGES WITHIN NEW COUNCIL'S GUIDELINE
Debt charges as a % of property taxes
18%
15%
12%
9%
6%
3%
0%
Council's guideline 15%
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019
Actual
Forecast
2010 Capital Budget & 10 year Capital Plan & Forecast
Total debt charges include interest & principal payments.

INVESTMENT ACTIVITIES DURING 2009 AND THE OUTLOOK FOR 2010

As mentioned earlier in the Economic Growth section, the world investment markets experienced a rapid decline in the fall of 2008, and remained volatile in the next few months. Then in the spring of 2009, the global economy began to stabilize, stocks began to rebound and credit markets began to unfreeze and open up and function in a fairly normal fashion. While inflation had not yet become a major concern of central bankers, economic growth had begun to turn positive by the third quarter of 2009, although little progress had been made towards reducing high unemployment rates in the world's major economies.

For 2010, there is a growing concern that economic growth and employment levels may falter as the federal and provincial governments in Canada as well as their U.S. counterparts continue to sustain large fiscal deficits while only planning to reduce them over the next five years as stimulus spending is withdrawn from the economy and central banks begin the process of increasing interest rates. As well, the Canadian and U.S. economies may be impacted by inflationary pressures as well as external situations such as the condition of the European and Asian economies and fiscal health.

Capital Market Activity

During 2009, the City issued $400 million of its approved $700 million debt program and had $300 million remaining that was not utilized from the 2009 Council authority due to less than receptive capital markets. This transaction received a good reception in a challenging and difficult bond market. The term-to-maturity of this issue blended current capital market conditions with the matching of the economic life of various capital expenditures to their financing terms. The structure and pricing of the transaction achieved the lowest cost of funds available relative to other potential structures, markets and currencies as permitted by provincial legislation.

Increasing the term-to-maturity of the City debt issuance to match the economic life of the City's infrastructure assets and providing liquidity to investors through larger bond issues are very important features of the City's 2010 debt issuance program which has been structured to issue debt with a 30-year term and the ability to reopen bond issues, depending upon capital market conditions.

Investment Activity

The City manages several investment portfolios, each with specific objectives. The City does not invest in equities except on a very limited basis through standalone entities and for specific purposes, specifically the Toronto Atmospheric Fund and the Toronto Community Housing Corporation. Two individual portfolios that are managed interactively are the Bond and Money Market Funds. The Bond Fund is positioned towards funding the City's future reserve and reserve fund requirements and therefore takes a longer view of the market. The Money Market portfolio is primarily focused on ensuring that adequate liquidity is maintained to meet the immediate cash flow requirements of the City's daily operations. The City's investment portfolio had a carrying value of $3.25 billion as at Dec 31, 2009.

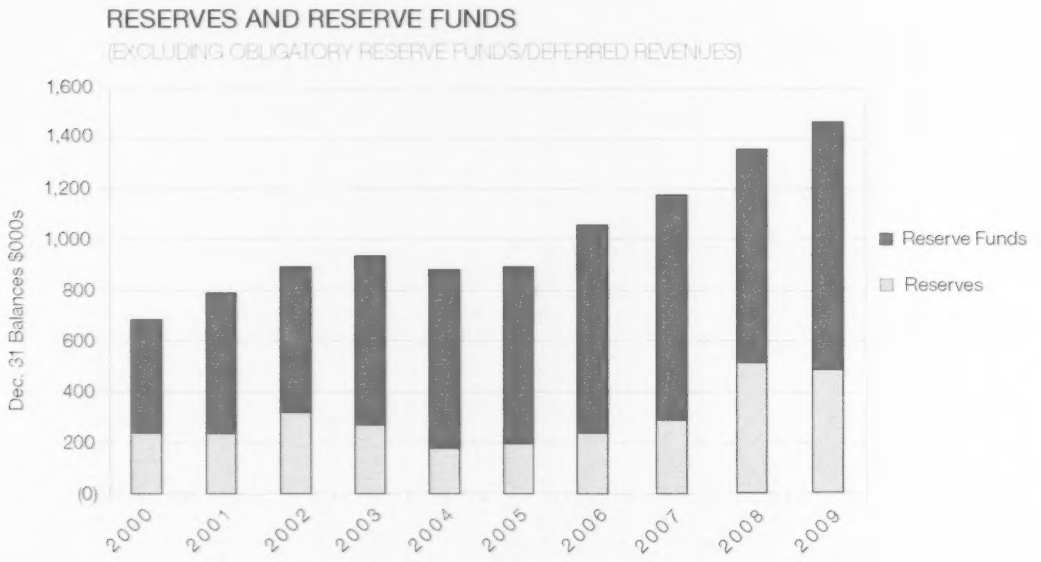
Despite a lower portfolio balance and historically low interest rate environment, the City earned an overall investment return of 4.7 per cent in 2009 versus 4.6 per cent in 2008 on a book value basis. This result was achieved by minimizing the time that funds were held in lower-yielding money market securities while retaining investments that were held in the Bond Fund for as long as possible through active cash management, forecasting and taking advantage of market opportunities to increase yields.

The City's bond portfolios continued to exhibit high credit quality and liquidity as no bond or money markets investments were held with less than an "A" credit rating as 83 per cent were rated "AAA" and 17 per cent were rated "AA," consistent with portfolio holdings over the past three years. During 2009, the flight-to-quality phenomenon started to reverse as soon as there were early signs of an economic recovery.

Looking forward, investment yields are expected to increase and credit spreads to continue to increase but at a far more modest pace. For 2010, higher short-term and stable long-term interest rates should have a positive impact on the performance of the City's investment portfolios, providing an opportunity for a possible duplication of the excellent investment performance results achieved in 2009.

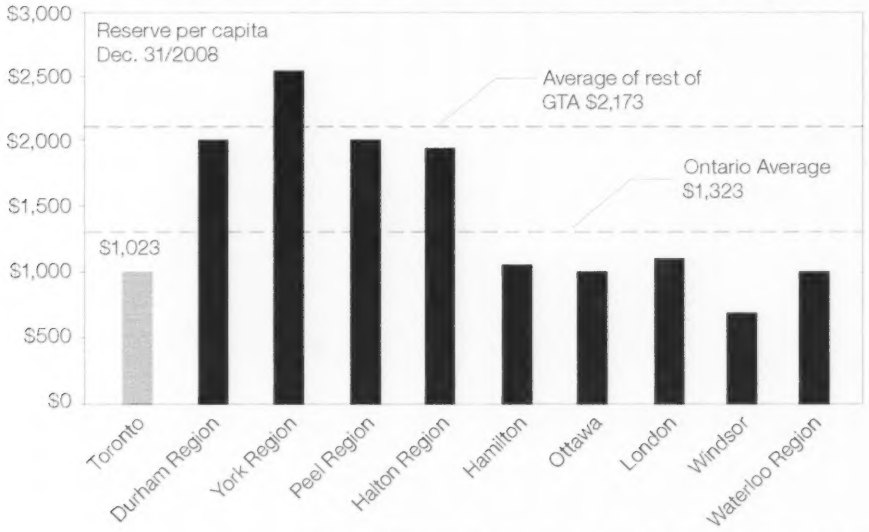
RESERVES AND RESERVE FUNDS

Reserves and Reserve Funds are monies set aside by Council to earmark revenues to finance a future expenditure for which it has authority to spend money, to defend the City against an unbudgeted or unforeseen event that may result in a budget deficit such as an economic downturn, to smooth out future program expenditures which may fluctuate from one year to the next, or to accumulate funds for future capital requirements or contingent liabilities. The following chart shows the reserves and reserve fund balances over the last 10 years. While the reserve fund balances would appear to be a large sum, it should be noted that the majority of these funds are committed to specific future liabilities. Due to its structural financial deficit mentioned earlier, the City has relied to some extent on reserve draws as a one-time revenue source to offset annual operating pressures. These one-time draws have somewhat limited the City's future financial flexibility in responding to risk and adverse circumstances.



On a comparative basis, the City's overall reserve fund balance on a per capita basis is comparable to those of other cities/regions such as Hamilton, Ottawa, London and Waterloo region, but is much lower than those of the rest of the GTA. Toronto's 2008 reserve per capita of $1,023 was about three-quarters of the provincial average ($1,323), and less than half of that of the rest of the GTA ($2,173). The City has established long-term reserve strategies for major reserves, e.g., employee benefits reserve and water and wastewater stabilization reserves, to address and mitigate the inadequacy, including determining needs and establishing contribution policies.

RESERVE LEVELS ARE COMPARABLE TO OTHER CITIES/REGIONS BUT LOWER THAN THE REST OF GTA



Sources: Ontario Ministry of Municipal Affairs & Housing - 2008 FIR, City of Toronto
Regional data consolidated for upper and lower tiers
Balances include Obligatory Reserve Funds/Deferred Revenues

DEFERRED REVENUES

Funds that are set aside for specific purposes by legislation, regulation or agreement and may only be used in the conduct of certain programs or the completion of specific work are reported as Deferred Revenues (previously Obligatory Reserve Funds). These include funds received from the other orders of government or third parties earmarked for certain purposes, e.g., Transit, Social Housing, Development Charges, Parkland Acquisition, Long Term Care Homes and Services. These amounts are recognized as liabilities in the year the funds are deposited, and received into revenue in the fiscal year the related expenditures are incurred or services performed. The balance of such funds categorized as Obligatory Reserve Funds as at December 31, 2009 was $1.2 billion. These funds are all committed, some of which will be used to fund some of the City's priority capital needs like transit expansion, and are not available at Council's discretion.

REVENUES

PROPERTY TAX

Property tax revenue is the City's single largest source of revenue. In 2009, the City collected $3.6 billion from residential and business property owners, representing about 38 per cent of its total operating revenues.

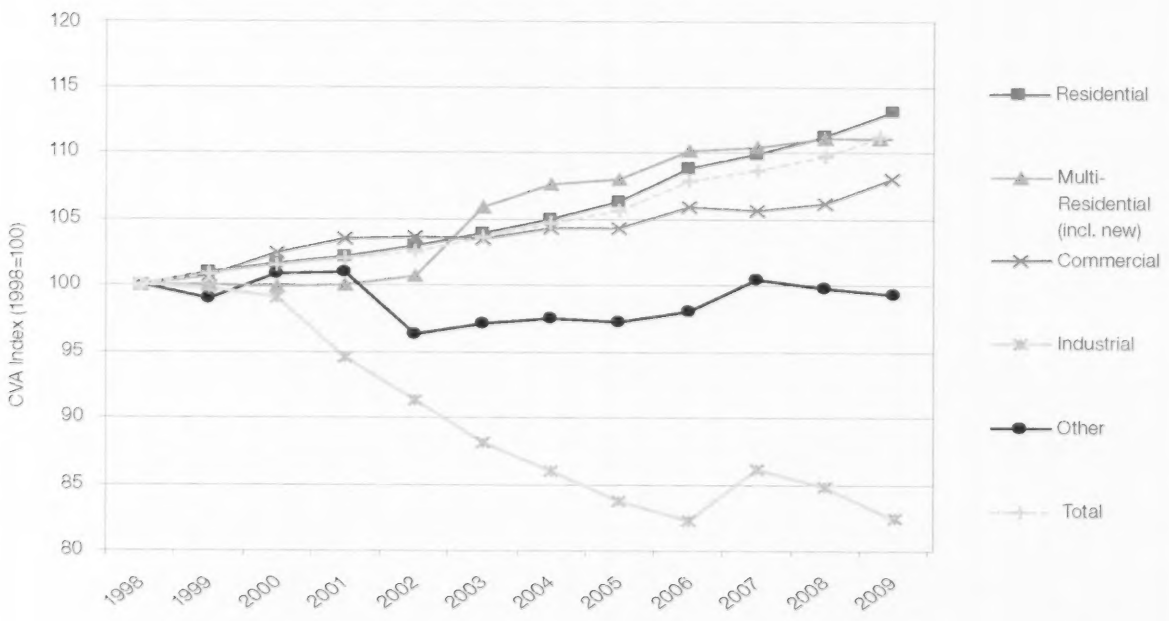
Every year the City is required by provincial legislation to establish tax rates that raise property tax revenues in the amount of the City's budgetary requirement. In addition, the City is also required to levy and collect property taxes for school purposes at the education tax rates set by the Province.

The amount of property taxes payable by a property is determined by multiplying the Current Value Assessment (CVA) of a property by the applicable tax rate for that class of property (e.g., residential, commercial, industrial, or multi-residential). The total tax rate for a property class consists of a municipal tax rate necessary to meet the City's budgetary requirement and the education tax rate necessary to fund the provincially-determined costs of education.

Certain properties are protected from excessive tax increases resulting from the implementation of CVA starting in 1998. The cost of such protection is funded by limiting tax decreases on other properties.

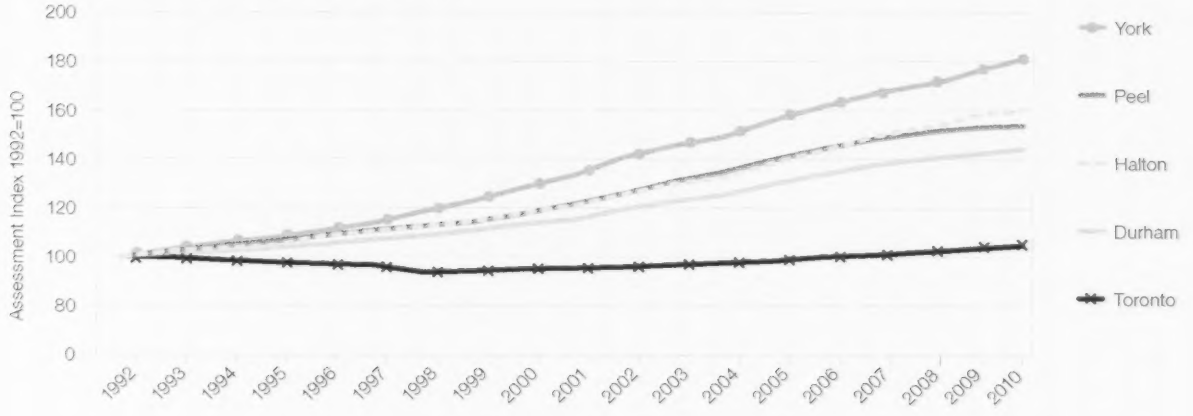
The total CVA of the City's properties saw a total true net growth (ie. excluding CVA impacts) of 11.5 per cent from 1998 to 2009 when the impacts of property reassessment are removed. Within the various property classes, residential properties had a true growth of 13.9 per cent, and multi-residential properties had an increase of 11.5 per cent. For the non-residential properties, while commercial properties had just a modest 6.4 per cent in true assessment growth, industrial properties had a net decrease of over 17.3 per cent. This is illustrated in the chart below.

TORONTO'S TRUE ASSESSMENT GROWTH
(EXCLUDING REASSESSMENT IMPACT)
1998-2009



Over the last 16 years, the GTA experienced quite remarkable economic and population growth following the recession of the 1990's. The Toronto region (CMA) contains a number of the fastest-growing municipalities in Canada with respect to population between 2001 and 2006, such as Milton (71.4 per cent), Brampton (33.3 per cent), Vaughan (31.2 per cent), Markham (25.4 per cent), Richmond Hill (23.2 per cent) and Ajax (22.3 per cent). The bulk of the new construction and the associated assessment increase are located in the surrounding areas in the GTA. For example, from 1992 to 2010 York Region's total assessment increased by 81 per cent, Halton Region (which contains Milton) saw a 62 per cent increase, Peel Region's increased by 56 per cent, and Durham Region's increased by 47 per cent. By comparison, the City of Toronto saw a gradual decline in assessment from 1992 to 1998, and there has been a modest increase since then. In fact, Toronto's property assessment is now 5 per cent above its 1992 level.

TORONTO'S ASSESSMENT GROWTH MORE MODEST THAN THE NEIGHBOURING REGIONS



Source: Ministry of Municipal Affairs (FIR), MPAC, Annual Financial Reports of the respective regions and survey.

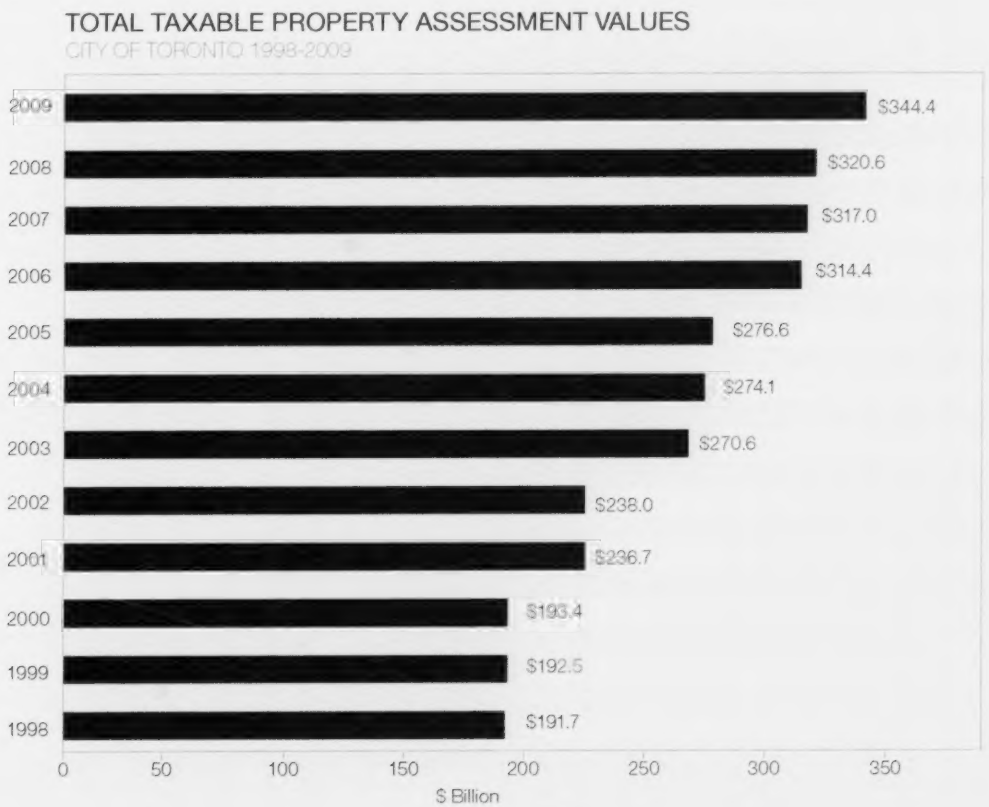
For 2009, properties have been reassessed to reflect a January 1, 2008 valuation date. This updated the assessed values from the previous base of January 1, 2005, following a moratorium on reassessments pending the results of a review by the Provincial Ombudsman in 2006. An outcome of this review has resulted in amendments to the Act, providing for a four-year reassessment cycle with Current Value Assessment (CVA) increases being phased-in between the four-year periods. This means that any increase in CVA from the reassessment will be phased-in at incremental increases of one-quarter of the total increase, spread over 2009 to 2012 taxation years. CVA decreases are not subject to phase-ins and will be applied immediately. The next reassessment will take place in 2013 with valuations based on January 1, 2012 valuation date. These changes will be phased in between 2013-2016.

The following table shows the valuation dates used for each taxation year from 1998 to 2016:

Taxation Year	Valuation Date		
1998 - 2000	June 30, 1998		
2001 - 2002	June 30, 1999		
2003	June 30, 2001		
2004, 2005	June 30, 2003		
2006 - 2008	January 1, 2005		
2009 - 2012	January 1, 2008	✓	Increases phased-in over 4 years
2013 - 2016	January 1, 2012		

Property Assessment

The following charts shows the total taxable property assessment values (CVA) in Toronto over the period 1998-2009.



Effective 1998, Ontario municipalities, whose commercial, industrial or multi-residential tax ratios (as a ratio of the residential class) exceed threshold ratios established by the Province, are restricted to some extent from passing on municipal levy increase to those classes. In Toronto, tax ratios for the commercial, industrial and multi-residential tax classes all exceed the provincial thresholds, which means that limited municipal levy (budgetary) increases can be passed on to these classes so long as the ratios exceed the threshold limits. This means that instead of accessing the full assessment base, the City could increase tax rates only on the residential class.

Toronto's Tax Ratios vs. Provincial Threshold Ratios

	2001 Taxation Year	2002 Taxation Year	2003 Taxation Year	2004 Taxation Year	2005 Taxation Year	2006 Taxation Year	2007 Taxation Year	2008 Taxation Year	2009 Taxation Year	Provincial Threshold Ratios
Multi-residential	4.174	4.001	3.870	3.802	3.761	3.635	3.546	3.469	3.380	2.74
Commercial	3.798	3.513	3.516	3.762	3.802	3.674	3.584	3.506	3.373	1.98
Commercial Small								3.410	3.265	1.98
Industrial	5.301	4.120	4.120	4.273	4.273	4.090	3.920	3.740	3.547	2.63

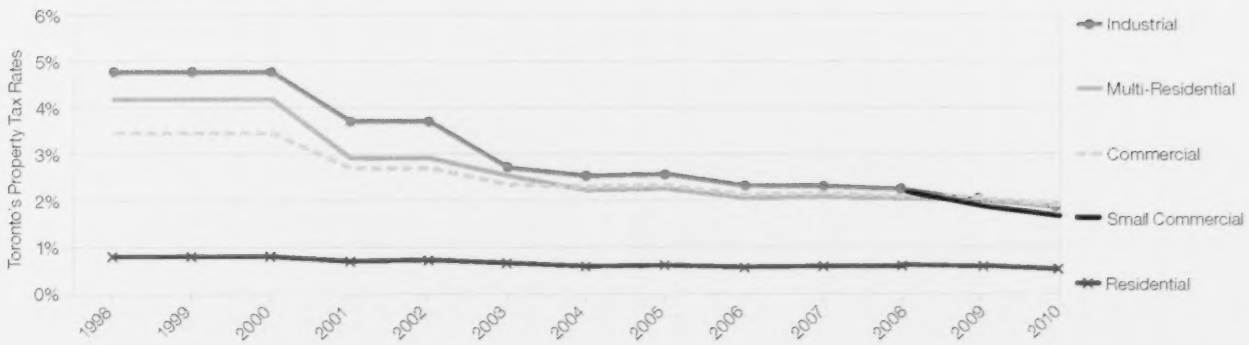
Since 2004, the Ontario Government has in its annual budget introduced regulations, on a one-time basis, that made adjustments to the municipal rules under the Ontario Property Tax System, which amongst other things, allowed tax rate increases on the non-residential classes to be no more than 50 per cent of the rate for the residential tax class. Although the relaxing of the restriction on non-residential classes is not permanent, it does provide partial relief from the budgetary levy restrictions imposed by Provincial legislation.

In late 2005, Council approved a comprehensive property tax policy "Enhancing Toronto's Business Climate – It's Everybody's Business" to improve the business climate in the City, and consequently in 2006 implemented the policy of allowing for up to one-third of any residential tax rate increase to be applied to the Commercial, Neighbourhood Retail, Industrial, and Multi-Residential tax classes (i.e. a one percent non-residential tax increase for a residential tax increase of three percent), which would reduce its non-residential tax ratios to 2.5 times the residential rate over 15 years (ie. by 2020). In addition the policy provides for an accelerated tax reduction for neighborhood retail and small businesses that will see their tax ratios fall to 2.5 times residential within ten years (2015), as well as property tax relief measures for non-retail office, hotel and industrial developments.

In 2009, partly due to the impacts of reassessment and Council's support to Enhancing Toronto's Business Climate, acceleration in the commercial and industrial tax rate reductions was implemented for 2009, which will keep the City on track to reaching it's Enhancing Toronto's Business Climate tax reduction targets of 2.5-times the residential rate two years earlier for small businesses (2013 instead of 2015), and three years earlier for the rest of commercial and the industrial and multi-residential properties (2017 instead of 2020).

BUSINESS TAXES HAVE BEEN REDUCED

(MUNICIPAL RATES ONLY)



Other City efforts to enhance competitiveness have resulted in a successful agreement with the provincial government to reduce business education tax (BET) rates for the City of Toronto businesses closer to the average of the surrounding GTA municipalities; creating a new, fair water rate structure for industrial and manufacturing companies; and continuing the relief of development charges for the City's commercial industry.

The City of Toronto Act gives options that limit the quantum of re-assessment related tax increases for the commercial, industrial, and multi-residential property classes. The City has adopted the capping option that limits CVA-related tax increases to 5 per cent of a property's prior year taxes, which for these properties phases them in towards their full CVA level of taxes.

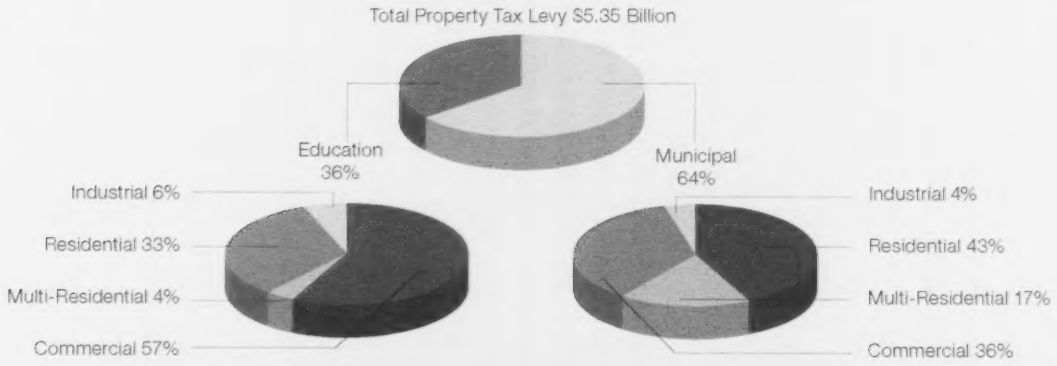
Special provisions to provide tax relief for low-income seniors and disabled persons, as well as charities and similar organizations, are also required.

Tax relief policies in effect for 2009 include:

- The cancellation of any tax increase for seniors aged 65 or older, or disabled person(s) with a household income of $30,000 or less, who have occupied their home for at least one year, and the residential property is assessed at less than $525,000.
- The interest free deferral of any tax increase for seniors aged 50 years or older or disabled persons, whose household income is $50,000 or less and have owned the property for at least one year.
- A 40 per cent rebate of taxes paid for registered charities owning or occupying space in commercial or industrial properties.

The following chart shows the total approved 2009 property tax levy totalling $5.35 billion, comprising $3.44 billion (64%) for municipal purposes, and $1.91 billion (36%) for education purposes which the City collected on behalf of the Province of Ontario. The approved amounts may be different from actual amounts received.

TORONTO 2009 PROPERTY TAX LEVY



The chart below illustrates the 2009 taxes payable for the average household in Toronto with an assessed value of $387,680.

2009 Average Household Property Taxes
Average residential assessed value – $387,680

	2009 Tax Rate	2009 Property Tax
Municipal Purposes	0.6027807%	$2,337
Education Purposes	0.2520000%	$977
Total	0.8547807%	$3,314

USER FEES

User fees are the City's second largest source of revenue. Where direct users can be identified, City user fees are established to recover the full cost of the relevant service and increased by the rate of inflation to the extent possible, while ensuring that the most vulnerable are protected.

Total user fee revenues represent approximately 24 per cent of total tax and rate-supported operating revenues. They include transit fares, parks and recreational fees, Water and Wastewater charges, as well as Solid Waste fees. The City's current user fee structures are at levels generally comparable to, and competitive with, the surrounding municipalities.

Council in 2007 approved a new plan to achieve a Solid Waste diversion goal of 70 per cent by 2010, by providing effective and efficient waste management and resource recovery services to residents and businesses in order to maintain a clean and healthy City. As part of the initiative, a new funding system, the volume-based rate structure, was implemented November 1, 2008 to pay for the required additional programs and services. With this structure, fees are tied to the volume of waste produced. Residents pay different fees for different bin sizes that they choose. This funding plan transforms Solid Waste Management (garbage, recycling, green bin, litter prevention, landfill management and other diversion programs) from being property-tax-based to user fee-based, and its fees are now part of the Utility Bill, together with the water charges, that are sent to City residents and businesses. To-date, the users of these services pay the full costs of the delivery and the service.

FUNDING TRANSFER FROM OTHER GOVERNMENTS

The City receives grants and subsidies from other orders of government which are mainly for mandated programs such as Social Assistance, Child Care, Public Health, Social Housing, and transit funding. In 2009, these transfers represented 19 per cent of the total Operating Budget (tax and rate-supported).

OTHER REVENUES

Other revenues include other income such as earnings from business enterprises and investment income. The total of these revenues makes up about 16 per cent of the City's total Operating Budget (tax and rate-supported).

NEW TAXATION

Two new taxes: Municipal Land Transfer Tax (MLTT) and Personal Vehicle Tax (PVT) were implemented in 2008 (MLTT – February 1, 2008 and PVT – September 1, 2008). The City of Toronto is the only Ontario municipality with the legislative authority *(City of Toronto Act, 2006)* to allow it to levy taxes other than property taxes. The two new taxes brought in revenues totalling $236 million or approximately 2 per cent of the City's total Operating Budget (tax and rate-supported).

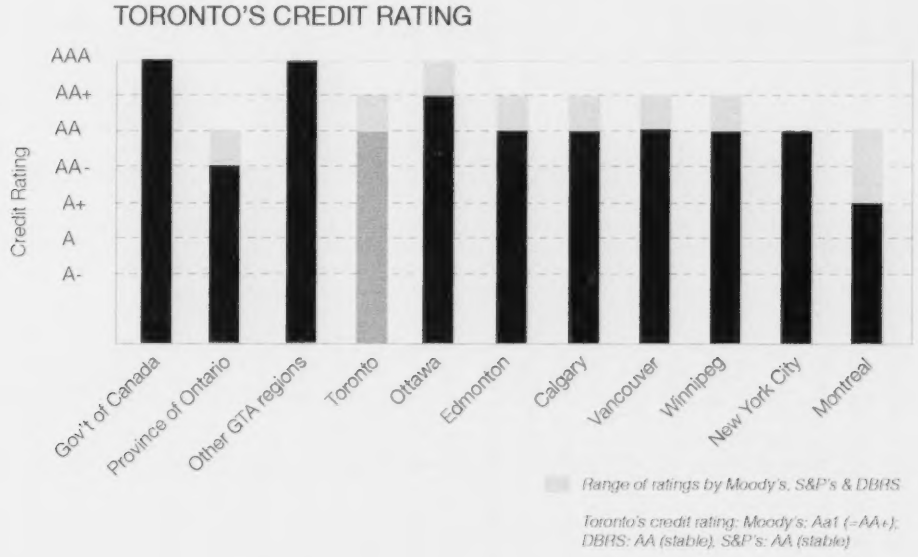
CREDIT RATING

The City of Toronto is recognized as an important participant in global financial markets. The maintenance of a high quality credit rating is essential to ensure that the City's ability to access the most cost-effective world capital markets will continue as it needs to borrow funds for capital purposes.

A municipality's credit rating helps to determine the ability to borrow funds. Credit rating agencies assess the City's financial position by comparing it with other cities and regions. A number of factors affect the credit rating, such as quality of management; strength of economy; level of reserves, state of repair of assets, debt levels, etc. If a municipality's current debt levels and future trends appear to be high, this will have a negative impact on its credit rating. If debt levels are considered low, this will have a positive impact. The rating essentially indicates the City's ability to make payments on the debt now and in the future.

While the City's debt affects its rating, the rating affects the City's ability to borrow, as well as the cost of borrowing. A higher rating translates into a lower cost of borrowing, as well as a wider market for investors in City debt. Below a certain rating, investors may have policies that don't allow them to purchase the City's debt, in which case the City would have to offer a higher interest rate to attract investors.

The City's credit rating remains among the highest of comparably sized or larger North American cities such as New York, Vancouver and Montreal.



Currently, the City of Toronto's credit ratings are:

- Aa1 with a stable outlook from Moody's Investor Service – confirmed March 2010
- AA with a stable trend from the Dominion Bond Rating Service Ltd.(DBRS) – confirmed May 2010
- AA with a stable outlook from Standard and Poor's Canada (S&P's) – December 2009

	2009 - 2002	2001	2000	1999	1998	1997
DBRS	AA	AA (high)	AA (high)	AA (high)	AA (high)	AAA
Standard and Poor's	AA	AA+	AA+	AA+	AA+	AA+/ AAA
Moody's Investors Service	Aa1	Aa2	Aa2	Aa2	Aa2	Aa2

Credit Rating agencies regularly issue reports respecting the industries and individual issuers. Here are some of the excerpts from those reports that generally explained the high rating held by the City of Toronto.

"Toronto continues to have the deepest, most diversified local economy in Canada.....Toronto maintains a low debt burden compared with those of 'AA' rated peers.....The city has what we view as a relatively healthy liquidity balance, which has more than quadrupled since 2000.....Toronto plans to increase its debt burden substantially in the next three years to fund peak lifecycle maintenance requirements, tackle priority projects, and accelerate certain works to qualify for federal fiscal stimulus funding.....Nevertheless, we believe Toronto's debt under the revised borrowing plan would still be relatively moderate. Moreover, to mitigate the impact of the revised borrowing plan on debt servicing, the city intends to finance long-term capital assets with 30-year debentures, which we expect will have a cheaper servicing cost in the early years compared with the 10-year debentures it currently issues"

Standard & Poor's, December 2009

"The City of Toronto's debt rating of Aa1 reflects the city's low debt burden and corresponding low debt service ratios. Moreover, the high investment-grade rating is supported by the city's high levels of net cash and investments, which provide substantial liquidity that could be tapped to mitigate unanticipated shocks, a considerable measure of safety for debenture holders. The rating also reflects the positive operating results recorded over the past several years despite numerous challenges experienced through the city's operating budget process, requiring annual adjustments. Toronto's Aa1 rating also reflects a large and diversified economy, which remains a source of credit strength, providing access to a broad tax base."

Moody's Investors Service, March 2010

"DBRS has confirmed the ratings of the debentures issued by the City of Toronto (the City or Toronto) at AA. The trends remain Stable. The sound credit profile of the City remains supported by the ability to levy taxes on the large and well-diversified Toronto economy and a healthy level of liquid reserves, amounting to $1.8 billion at year-end 2009. DBRS notes, however, that the capital plan is expected to enlarge the tax-supported debt burden by about 50% by 2014 and will likely erode much of the flexibility.....In the coming years, growth in the debt burden will be driven by the extensive capital plan, which focuses on new transit infrastructure and investment in roads and bridges. All in, the capital spending pressure is forecast to push debt to a peak of roughly $3.8 billion, or $1,400 per capita, by 2014. This level of debt is viewed as manageable for the current rating given the strength of the economy and healthy level of reserves, but it will materially reduce the City's room to manoeuvre.....DBRS expects that Toronto can continue posting sound operating results if it maintains its recent fiscal resolve in dealing with base budget pressures and creates budget space to fund much-needed infrastructure investments."

DBRS, May 2010

PERFORMANCE MEASUREMENT AND BENCHMARKING RESULTS

To provide context when examining Toronto's performance, it is important to consider that municipal property taxes represent only 6.6 per cent of the total taxes, in all forms, paid annually by an average Ontario family. These various forms of taxes include income taxes, Employment Insurance and Canada Pension Plan premiums, consumption taxes such as the GST and PST, and embedded taxes, which are included in the price of gasoline, liquor and tobacco. The discussion on Toronto's performance that follows is focussed on how Toronto utilizes it 6.6 per cent share of the total tax dollar.

Toronto's 2008 Performance Measurement and Benchmarking Report Benchmarking Report can be found at: *http://www.toronto.ca/legdocs/mmis/2010/ex/bgrd/backgroundfile-31020.pdf.* It includes:

- service/activity level and performance measurement results (efficiency, customer service and community impact) in 27 different service areas;
- up to nine years of Toronto's historical data to examine internal trends;
- a comparison of Toronto's 2008 results externally to 14 other municipalities through the Ontario Municipal CAOs Benchmarking Initiative (OMBI);
- colour coded summaries of results and,
- a description of 2009 achievements and planned 2010 initiatives that will further improve Toronto's operations in the future.

By examining our own operations and working with other municipalities through OMBI, these processes encourage Toronto's service areas to continuously look for opportunities to improve operations and performance. As part of the Operating Budget decision-making process, all City services are quantified and evaluated using performance measures. Over the next three years, the City will move towards a service-based, performance focused, and multi-year budget process through program map and service planning in 2011 and the introduction of a new budgeting system beginning in 2012 – all based on a full Public Service View for the City of Toronto.

Summary of Toronto's 2008 Performance Measurement & Benchmarking Results

Toronto is unique among Ontario municipalities because of its size and its role as the centre of business, culture, entertainment, sporting and provincial and international governance activities in the Greater Toronto Area. Even Toronto's largest single-tier municipal comparators within Ontario, such as Hamilton and Ottawa, have a significant rural component that Toronto does not.

The most accurate comparison for any municipality is to examine one's own year-over-year performance and longer term historical trends. For this reason, it was considered important to include up to nine years of Toronto's internal data in the Benchmarking Report.

Despite the unique characteristics of Toronto, such as our much higher population density, there is also value in making comparisons of performance measurement results to other municipalities to assist in understanding how well Toronto is doing. Through the OMBI partnership, performance measurement results are shared between municipalities and are included in Toronto's Benchmarking Report. Toronto's results are ranked and placed in quartiles relative to the other 14 municipalities that comprise OMBI, which together with Toronto serve more than 9.4 million residents or 73 per cent of Ontario's population. OMBI's members are comprised of eight single-tier cities/counties and seven regional or upper-tier municipalities.

Internal Trends – Service/Activity Level Indicators

Of the 44 service/activity level indicators included in the Benchmarking Report, 82 per cent of results remained stable or increased in relation to 2007. Examples of some of the areas in which Toronto's service levels or levels of activity have increased in 2008 include:

- More park land and trails added
- Increased library holdings
- More registered sports and recreation programming were offered
- More transit vehicle hours were provided

Internal Trends – Performance Measures

Of the 118 performance measurement results, of efficiency, customer service and community impact included in the Benchmarking Report, 69 per cent had results that were either improved or remained stable relative to 2007.

Examples of areas in which Toronto's 2008 performance indicators improved include:

- Increased commercial/industrial construction values
- Decreased crime rates in all crime categories
- Reductions in fire-related injuries and fatalities and an improvement in response time
- Increased public transit usage

External Comparisons – Service/Activity Level Indicators

Of the 52 service/activity level indicators in the Benchmarking Report, Toronto's results were higher than the median of the OMBI municipalities for 54 per cent of the indicators.

Examples from the report where Toronto's size and higher population density require higher service levels include the:

- Highest rate of library holdings
- Highest rate of social housing units
- Highest rate of transit vehicle hours provided

Examples in the Benchmarking Report where Toronto's results are lower in levels of service than other municipalities can be explained by its population density. In comparison to other municipalities, Toronto has a high population density (persons per square kilometre). In municipalities with higher densities, a larger number of people can make use of a single service, because it is convenient for them to access this service. In contrast, municipalities with lower densities require more service locations to make it convenient to access these services. For example, Toronto ranks lower in number of library hours per capita, because municipalities with low population densities require more library branches, and hence, more service hours, so that service can be provided within a reasonable distance of its residents.

External Comparisons – Performance Measures

Of the 118 performance measures of efficiency, customer service and community impact in the Benchmarking Report, Toronto's results are higher than the median of the OMBI municipalities for 47 per cent of the indicators. Examples where Toronto has the top/best result of the OMBI municipalities include the:

- Highest rate of commercial/industrial construction values per capita
- Lowest rate of fire related injuries
- Lowest cost of governance and corporate management
- Highest rate of transit trips per capita

OTHER METHODS OF ASSESSING TORONTO'S PERFORMANCE

Other Report Cards and Indicator Reports

Toronto's Benchmarking Report focuses on performance measurement results in specific service areas; however, it is by no means the only type of reporting conducted by Toronto in this area. Links to other report cards or indicator reports issued by the City of Toronto, or, in association with the City, are noted below:

- Housing Connections Statistical Reports: *http://www.housingconnections.ca/information/Reports.asp*
- Homelessness and Housing Research and Reports: *http://www.toronto.ca/housing/research-reports.htm*
- Toronto Community Health Profiles: *http://www.torontohealthprofiles.ca/*
- Economic Indicators: *http://www.toronto.ca/business_publications/indicators.htm*
- Federation of Canadian Municipalities – Quality of Life Indicators *http://acaciaconsulting.ca/fcm/qolrs/10x10grid.htm*
- Vital Signs- Issued by Toronto Community Foundation *http://www.tcf.ca/vitalinitiatives/vitalsigns.html*

Toronto in International Rankings and Reports

Toronto continues to be considered one of the most liveable and competitive cities in the world as demonstrated by various international rankings and reports. These include:

- Toronto made **Forbes Magazine** 2008 list of the top 10 most economically powerful cities, competing with Madrid, Mexico and Philadelphia for the number 10 spot. According to Forbes, Toronto continues to be the economic heart of one of the world's wealthiest countries, and along with London, is the fastest growing G8 financial centre.
- **KPMG's 2010 Competitive Alternatives** study found that Toronto continues to offer one of the most cost effective business and investment climates in the world. The KPMG study measured 26 business cost components, including labour costs, facility costs, transportation costs, utility costs and income taxes in 10 countries and more than 100 cities around the world. The study also compared data on a variety of non-cost competitiveness factors that could also influence the attractiveness of locations to business, such as labour availability and skills, economic conditions and markets, innovation, infrastructure, the regulatory environment, cost of living and quality of life. The basis for comparison is the after-tax cost of start up and operations, over a 10-year period.
- According to the **Economist Intelligence Unit** (the Economist Magazine), Toronto ranks fourth in the world for liveability, following Vancouver, Vienna and Melbourne. The December 2009 study rated 140 cities worldwide across the following five categories: stability, health care, culture and environment, education, and infrastructure.
- The **2010 Mercer Quality of Living** survey ranked Toronto 16 out of 50 cities. Canadian cities dominated the rankings in the Americas (North, Central and South America). Mercer's 2010 Quality of Living Survey evaluated 221 cities and selected 50 cities based on various measures relating to quality of living, such as political, social, economic and environmental factors, safety, public services and transportation, and recreation.
- A survey conducted in 2009 by **Z/Yen Group** ranked Toronto 12th out of 75 financial centres on the Global Financial Centres Index (GFCI). The aim of the CFCI is to examine major financial centres in terms of competitiveness. The report states that Toronto has risen since the last report and now ranks as the 2nd North American financial centre, as well as the clear leader in Canada. Toronto also performed well in the People sub-index, where it scored 6th place, and in the Asset Management and Professional Services subindices, where it ranked 9th place in both categories. The GFCI report evaluated the competitiveness of 75 financial centres worldwide using results of online surveys completed by financial services leaders, and various separate indices of competitiveness.

- In its November/December 2008 issue, **Foreign Policy (FP)** Magazine ranked Toronto as one of the world's top 10 global cities, after New York, London, Paris, Tokyo, Hong Kong, Los Angeles, Singapore, Chicago and Seoul. FP's inaugural 2008 Global Cities Index ranked 60 cities according to the following categories: business activity, human capital, information exchange, cultural experience and political engagement. Toronto ranked fourth for culture (after London, Paris and New York), tenth for human capital, eighteenth for information exchange, twenty-fourth for political engagement, and twenty-sixth for business activity.
- The **World Intellectual Property Organization,** which tracks the number and types of patents that have been issued worldwide, reported that Toronto had the eighteenth-highest number of patents globally. Patents are one of the most direct ways of measuring innovation.
- The **2008 Worldwide Centers of Commerce Index** ranked Toronto thirteenth in the world (after London, New York, Tokyo, Singapore, Chicago, Hong Kong, Paris, Frankfurt, Seoul, Amsterdam, Madrid and Sydney), and third in North America (after New York and Chicago). Developed for MasterCard, the index evaluates 75 of the world's leading global cities and their role in driving the international economy based on seven categories: legal and political framework, economic stability, ease of doing business, financial flow, business centre, knowledge creation and information flow, and liveability. Toronto ranked sixth, alongside Montreal and Vancouver, for its legal and political framework, and fourth for ease of doing business, after Singapore, Hong Kong and London.
- A recent report published in December of 2009 by the **Organization for Economic Cooperation and Development (OECD)** conducted a study on the economic competitiveness of the Toronto metropolitan region. Some of the highlights of the report include the challenges faced in the Toronto region with respect to its mixed economic performance. GDP per capita and GDP growth rates are below the Canadian average. It has had lower annual economic and labour productivity growth than the average of OECD metropolitan regions over 1995-2005.

World Bank Initiative to Develop City Indicators

It is also important to compare Toronto internationally. Toronto is an active participant in the World Bank sponsored Global City Indicators Facility (GCIF) and has supported the development of a standardized set city indicators that measure and monitor city performance and quality of life globally.

Toronto was one of the original nine pilot cities, that has grown to over 100 international cities as of May 2010. It is expected that this initiative will still take some time before comparable results will become available, but if successful it will provide a valuable additional source of information to assess how well Toronto is doing from both a service delivery and quality of life perspective.

Conclusion

The City continues to promote a continuous improvement culture in order to provide our citizens and businesses with services that are as efficient and effective as possible, looking for the optimal combination of efficiency and quality and beneficial impact on our communities.

For further information on Toronto's performance please visit our website at *http://www.toronto.ca/city_performance/.*

TREASURER'S REPORT

The Consolidated Financial Statements are intended to provide Council, the public, the City's debenture holders, and other stakeholders, an overview of the state of the City's finances at the end of the fiscal year and indicate revenues, expenses and funding for the year.

The preparation, content and accuracy of the Consolidated Financial Statements and all other information included in the financial report are the responsibility of management.

As required under Section 231 of the City of Toronto Act, the financial statements are prepared in accordance with generally accepted accounting principles as set by the Canadian Institute of Chartered Accountants' (CICA) Public Sector Accounting Board (PSAB).

These Consolidated Financial Statements have been audited by Ernst & Young LLP whose role is to express an independent opinion on the fair presentation of the City's financial position and operating results and to confirm that the statements are free from material misstatement. The external auditor's opinion is to provide comfort to third parties that the financial statements can be relied upon.

New Accounting and Financial Reporting Requirements:

Effective January 1, 2009, the City has adopted PSAB Sections 3150 (Tangible Capital Assets) and 1200 (Financial Statement Presentation) of the reporting handbook. This has been a major undertaking for the City and represents the largest change ever in municipal accounting. PSAB 3150 provides the requirement for recording tangible capital assets on the statement of financial position (i.e. balance sheet) and amortizing them over their useful lives. Tangible capital assets were previously recorded as capital expenditures upon acquisition and effectively expensed in the year of acquisition, ignoring the future service benefits provided by these assets. PSAB 1200 establishes general reporting principles and standards for the disclosure of information in government financial statements. The comparative figures for 2008 have been restated to comply with the new accounting standards. The impacts of these restatements are reflected in Note 2 to the Consolidated Financial Statements.

The City's financial statements are now prepared on a full accrual accounting basis, the same basis of accounting used by the federal and provincial governments. This is an important milestone in government accounting for local governments and has been ten years in the making. Compared to other government entities, tangible capital assets represent a large proportion of a municipality's assets and are an important part of its operating activities. In comparison, the net book value of the City's tangible capital assets is valued at approximately 85 per cent of those of the entire Province of Ontario.

In order to inventory and value the City's tangible capital assets, a significant amount of work was undertaken over the past three years by Accounting Services staff in collaboration with other City divisions, other municipalities and the City's external auditor. Reporting of these tangible capital assets provides information for accountability and stewardship and provides critical information on the City's significant investments in assets.

Consolidated Financial Statements

The Consolidated Financial Statements include the following individual statements:

Name	Purpose	New this Year re: PSAB 3150 & 1200
Consolidated Statement of Financial Position	Provides a summary of the City's financial assets and liabilities (the financial resources the City has available for future services and the future revenues required to pay for past transactions).	• Recognition of tangible capital assets. • Recognition of accumulated surplus, composed of amounts previously recorded in Municipal Position: Operating fund, Capital fund, Reserve and Reserve Funds, and Amounts to be recovered; as well as the net amount invested in tangible capital assets.
Consolidated Statement of Operations and Accumulated Surplus	Outlines revenues, expenses, surplus for the year and accumulated surplus at year end. This statement reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities, and provides the calculation of the City's accumulated surplus at year end.	• This statement was previously named the Consolidated Statement of Financial Activities. • Capital expenditures are no longer shown as expenditures. Amortization of tangible capital assets is expensed. • Debenture financing is not shown as revenues and principal repayments are not shown as expenditures.
Consolidated Statement of Net Debt	Outlines the changes in net debt as a result of annual operations, tangible capital asset transactions, as well as changes in other non-financial assets.	• This is a new statement that is unique to governments. • The statement focuses on the difference between financial assets and liabilities; the amount that must be financed.
Consolidated Statement of Cash Flows	Summarizes the City's cash position and changes during the year by outlining the City's sources and uses of cash.	• No significant change

The Consolidated Financial Statements combine the financial results of the City's divisions with the financial results of the agencies, boards, commissions ("ABCs") and government business enterprises that the City effectively controls. There are 110 entities that are directly included in the financial statements and these are listed in Note 1 to the Consolidated Financial Statements. There are also a number of subsidiaries of ABCs which are not included in the entity count above. The notes to the statements provide further detail about the City's financial results and are an integral part of the consolidated financial statements.

In prior years, to aid readers in understanding the financial statements, schedules were prepared for current operations, capital operations, and reserves and reserve funds. With the recognition of tangible capital assets on the statement of financial position, a breakdown between current and capital is no longer provided in the consolidated financial statements.

This year a Glossary, which explains various terms used in the consolidated financial statements, has been included as part of this report.

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position is the municipal equivalent of the private sector's balance sheet. This year, for the first time, this statement includes the net book value of the City's tangible capital assets. This statement focuses on the City's assets (financial and non-financial) and liabilities. The difference between the liabilities and financial assets is the City's net debt, which represents the net amount that must be financed from future budgets. Prior years' Consolidated Statements of Financial Position would have identified net debt as "Net Financial Liabilities".

In prior years the City's municipal position was shown in the Consolidated Statement of Financial Position detailed by fund balances and amounts to be recovered from future years. As these balances are now included in the "Accumulated Surplus", Note 18 to the Consolidated Financial Statements details the breakdown of the accumulated surplus, including all of its components: amount invested in capital assets; operating fund, capital fund, reserve and reserve fund balances; and amounts to be recovered from future revenues.

The City has received funds for specific purposes under legislation, regulation or agreements. The recognition of these funds as revenues has been deferred until related expenses occur in the future. For example, development charges, parkland dedication fees and Federal and Provincial Government transfers received (such as public transit funding), are not recognized as revenues until such time as the projects are constructed. These restricted funds are included in liabilities as "Deferred Revenue" and not in the accumulated surplus. A breakdown of the City's deferred revenue obligatory reserve funds can be found in Note 10(a) to the Consolidated Financial Statements.

As a result of the significant investment in tangible capital assets, there is a large accumulated surplus, which shows up in these consolidated financial statements for the first time this year. Although there is a large accumulated surplus, this occurs at the same time that the City has a significant net debt, which must be financed through future revenues. Although tangible capital asset balances are considerable for municipalities – much larger on a percentage basis than any other level of government – they do not provide liquidity, and are not typically available for sale, the proceeds of which could be used for other purposes. It is for this purpose that tangible capital assets are not included in the calculation of net debt, arguably the most important financial statistic for governments.

Consolidated Statement of Operations and Accumulated Surplus

The Consolidated Statement of Operations and Accumulated Surplus is considered to be the municipal equivalent to the private sector's Statement of Income and Retained Earnings.

The Consolidated Statement of Operations and Accumulated Surplus provides a summary of the revenues, expenses, and surplus throughout the reporting period and outlines the change in accumulated surplus.

The 2009 budget values presented in this statement have been adjusted to reflect the differences between amounts as budgeted at the City on a modified "cash requirements" basis and amounts now recorded in these financial statements. Note 20 outlines the adjustments to the budget, particularly reduction of debt proceeds and payments, reduction of tangible capital asset purchases and inclusion of estimated amortization expense. These adjustments to budgeted values were required to provide comparative budget values based on the full accrual basis of accounting. The accrual based budget results in a surplus, as the City must fund reinvestment in assets at amounts greater than their historical cost.

Consolidated Statement of Net Debt

The Consolidated Statement of Net Debt is new for 2009, and is unique to governments. Other senior levels of government have been preparing this statement for a number of years. This statement focuses on the debt of the City, adjusting the annual surplus for the impact of tangible capital assets: mainly deducting the costs to acquire assets, and adding back amortization charged during the year.

Financial Condition

The most important measure of any government's financial condition is its net debt: calculated as liabilities (e.g. trade and employment payables, mortgages and debentures) less financial assets (e.g. cash, receivables, and investments).

The City's net debt as at December 31, 2009 increased by $292M to $3.8B (2008 - $3.5B). This increase in the City's net debt is primarily due to the amount of tangible assets purchased less the sum of the annual surplus and the amortization of capital assets. (See Consolidated Statement of Change in Net Debt).

The City's long-term debt (Notes 13 and 14) remained virtually unchanged in the year as debt principal repayments were almost equivalent to new debt issued.

In order to improve the City's net debt position, the City continues to implement its Long Term Fiscal Plan. Some key measures included in the plan are: tax policies which enhance economic competitiveness and improve Toronto's business climate, utilization of user rate adjustments for environmental and cost control purposes, creating new revenue sources, and working with the Province to continue and expand the upload of social service program costs.

While the debt financing has grown and will continue to grow due to state of good repair funding requirements and increased focus on improving public transit, the City's updated Capital Plan inclusive of enhanced federal and provincial funding, combined with the recent approval of the long-term debt restructuring strategy, ensures a solid financing plan is in place for the next five years.

The positive effects of implementing these financial plans are reflected in the City's AA and Aa1 (Moody's) independent credit ratings.

Another key indicator of a government's financial condition is the amount that must be paid from future revenues as included in Note 18 of Consolidated Financial Statements. These liabilities include TCHC mortgages, debentures, employee benefit liabilities, property and liability claim provisions, landfill liabilities and environmental liabilities. In 2009, the total amount that will be recovered from future property taxes and other revenues grew by $110M to $6.6B. This increase mainly consists of:

- an increase of $80M in employee benefits liabilities;
- an increase of $13M in other (mainly property and liability claims provision);
- an increase of $33M in mortgage and long term debt;
- offset by a decrease of $16M in landfill closure and post-closure liability.

Table 1 outlines the trend in financial asset and liability growth over the last 5 years.

Table 1

Net Debt – 5 year Summary

(in thousands of dollars)

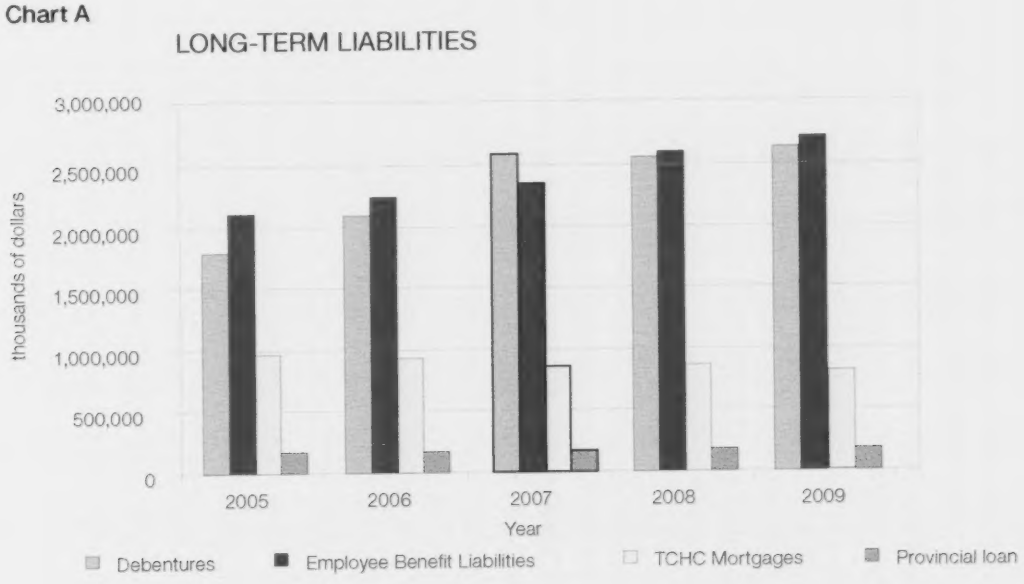
Net Debt	5 Year Average Annual Increase	2009	2008	2007	2006	2005
Liabilities	6.96%	10,558,086	10,647,259	9,631,062	8,451,699	8,067,913
Financial assets	4.19%	6,728,291	7,109,217	6,580,328	5,999,744	5,680,217
Net Debt	**12.54%**	**3,829,795**	**3,538,042**	**3,050,734**	**2,451,955**	**2,387,696**
Percentage Increase		**8.25%**	**15.97%**	**24.42%**	**2.69%**	

The City's net debt has increased by a compound annual rate of 12.54 per cent over the last four years, attributable to increases in long-term debt to third parties and in long-term employee benefit liabilities.

The significant growth in long-term debt has been driven mainly by the need to finance transit capital expenditures. The growth of employee benefit liabilities has been driven by an aging demographic (employees and retirees), increased utilization of the plan, increased cost of drugs and services and de-regulation of government sponsored benefits which are transferred to private benefit plans. Staff have attempted to contain the growth of this liability through collective bargaining and have made significant progress in eliminating the vested sick leave plan for Local 79 and Local 416 employees.

Chart A provides the breakdown of long-term liability growth by debt type.

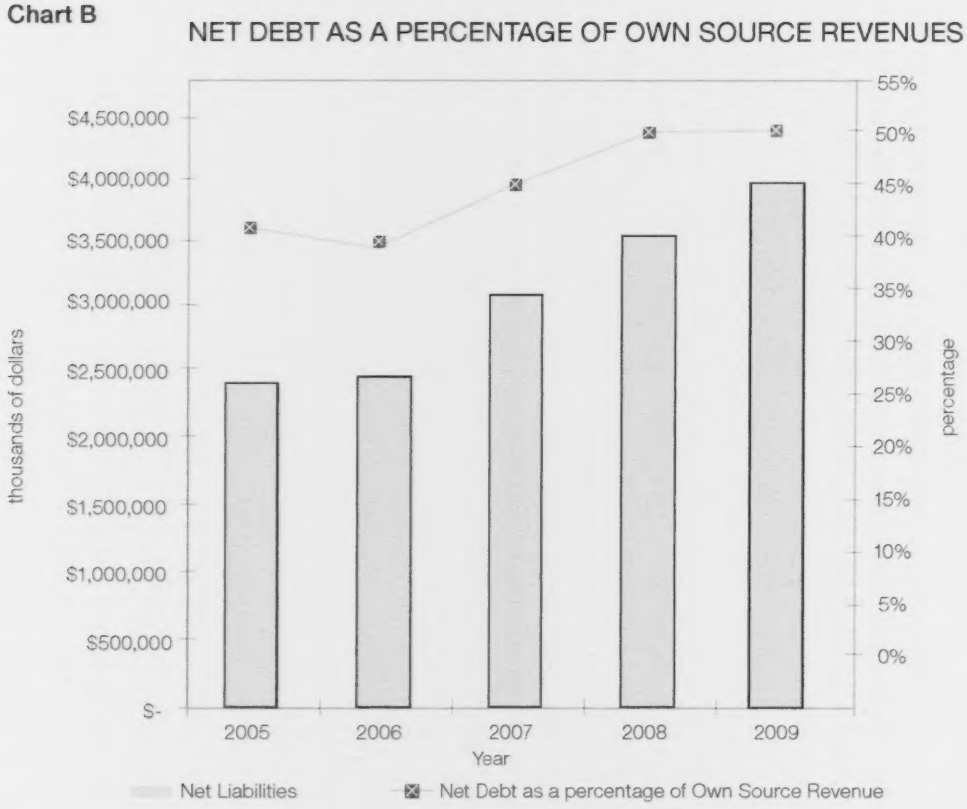
Chart A



Additional information on the mortgage liabilities of TCHC is provided in Note 13, additional information about the provincial loan and the City's debenture debt is provided in Note 14, while further detail about the City's employee benefit liabilities is provided in Note 15 of the Consolidated Financial Statements.

To put the City's net liability into a different context, Chart B expresses the net debt as a percentage of the City's own source revenues (excluding government transfers and earnings from investment in government business enterprises (GBE's). The net liability as a percentage of own source revenues has grown from 41.4 per cent to 51.7 per cent in the last five years.

Chart B

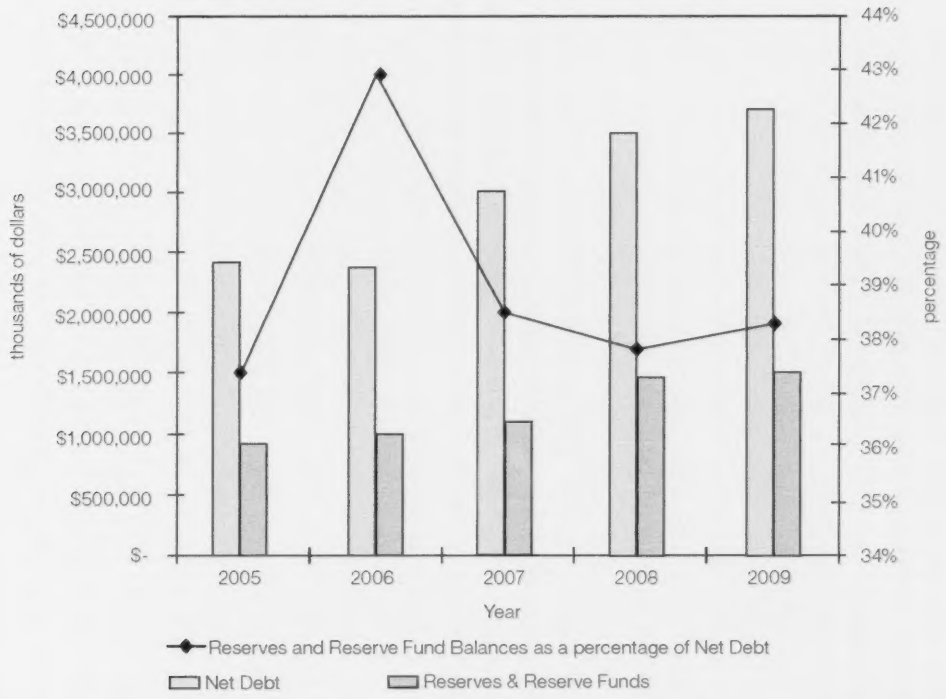


The City's net debt substantially exceeds the City's reserve and reserve fund balances as shown in Chart C. The vast majority of the reserve and reserve funds are committed to fund capital projects identified in the ten year capital plan, and future known liabilities, leaving only a small portion available for discretionary spending. The balances of all the Obligatory Reserve Funds are restricted for specific purposes as designated by legislation or contractual agreements and all capital reserves/reserve funds are required to replace and maintain capital assets. Also, the current balances of some reserve funds (e.g. Employee Benefits) provide only a small portion of the funding to cover the future obligations for which they have been set aside.

For financial statement purposes, PSAB requires that obligatory reserve fund balances (such as development charges and unspent provincial public transit funding) be classified as deferred revenue (see Note 10(a) of Consolidated Financial Statements). As a result, the reserve and reserve fund balances in the financial statements are lower than those included in staff reports to the Budget Committee and Council which include obligatory reserve fund balances.

Chart C

DISCRETIONARY RESERVES AND RESERVE FUND BALANCES AS A PERCENTAGE OF NET DEBT



Note 18 of the Consolidated Financial Statements provides a breakdown of the City's reserves and reserve funds.

Analysis of Key Asset and Liability Accounts

Accounts Receivable

Accounts receivable balances increased $315.7M in 2009. The increase consists primarily of the following:

- higher receivable from Government of Canada for Federal Gas Tax ($40.7M) and for Canada Strategic Infrastructure Fund (CSIF) ($20.1M);
- higher receivable from Government of Ontario for the following:
  - TTC re: Transit City Project – Metrolinx ($33.3M);
  - Social Housing Renovation and Retrofit Program (SHRRP) ($54.3M);
  - Ministry of Transportation for Toronto York Spadina Subway Extension ($18.9M);
  - Ontario Bus Replacement program (OBRP) ($23.6M);
  - Provincial Offences Act/fines ($9.5M); and
  - Receivable from Ministry for Community and Social Services for Ontario Works program for October – December not settled as of December 2009, settled in 2010. ($26.1M).
- increase in receivable from York Region regarding their subway contribution payment for 2009 ($14.9M) offset by payment received for amount for 2008 ($10M);
- increase in Water fees receivable ($14.7M) due to the timing of the last uitility billing in 2009 being processed late in December and increase in Solid Waste receivables ($4M);
- other fees and charges are primarily higher due a vendor take back mortgage for 2 Bloor St. West ($35M), increase in provisions and other miscellaneous increases.

The breakdown of accounts receivable at December 31, 2009 with 2008 comparatives is as follow:

Accounts Receivable	2009	2008
	(in thousands of dollars)	
Government of Canada	245,362	182,150
Government of Ontario	249,617	74,441
Other municipal governments	20,940	16,299
School board	199	300
Utility fees	122,407	103,920
Other fees and charges	447,454	393,122
Total	**1,085,979**	**770,232**

Taxes Receivable

Taxes receivable consists of all outstanding taxes, items that have been added to the tax roll (such as utilities arrears, drainage charges, local improvement charges), accumulated penalties and interest charges, net of an allowance for uncollectible taxes. A breakdown of this receivable is noted below:

Taxes Receivable	2009	2008
	(in thousands of dollars)	
Current year	228,172	184,623
Prior year	34,455	26,622
Previous years	35,829	26,942
Interest/penalty	38,801	30,363
Less: allowance for doubtful accounts	(24,169)	(22,476)
Net receivables	**313,088**	**246,074**

Total year end taxes receivable increased by $67M mainly as a result of the following:

- The continued decline in economic conditions experienced in 2009 resulted in a $42.4M increase to the December 31, 2009 taxes receivable as compared to December 31, 2008. Staff are not concerned about this increase at this time as the amount is substantially secured by the underlying property value.
- Year end receivables which are due in future periods increased by $24.6M to $74M (2008: $49.4M). These receivables are mainly supplementary/omitted levies and other charges issued late in the year and due in the following year.

Other Assets

Other Assets increased by $52.4M to $161.1M (2008: $108.8M) due primarily to:

- TCHC advancing an additional $35.4M in 2009 to Dundas Parliament Development Corporation (DPDC) for the interim financing of their construction; and
- Build Toronto Holding One Inc., (BTHOI), a wholly owned subsidiary of Build Toronto, acquiring a loan of $26.9M from a financial intermediary with respect to a development in the Toronto Waterfront. The loan expires in 2018 and has an interest rate of 5.6 per cent with a balloon payment of $12.2M.

Investments

Investments decreased by $568M to $3.3B (2007: $3.8B) due primarily to use of Investing in Ontario Act funds ($238M) for transit related debt charges, and borrowing less than budgeted by $223M.

Details about the City's investment portfolios and their yields are provided in Note 5 to the Consolidated Financial Statements.

Note Receivable – Toronto Hydro Corporation

Note receivable decreased by $245M due to the $245M principal repayment by Toronto Hydro. The proceeds will be used in part for the debt restructuring strategy approved by Council on December 9, 2009 and adopted as part of the 2010-2019 Capital Budget and Plan to repay Sinking Fund debentures. Under the debt restructuring strategy, Council has approved the sale of the balance of the Toronto Hydro Promissory Note which was sold on April 1, 2010. (See Note 19 of the Consolidated Financial Statements).

Investment In Government Business Enterprises

With the implementation of reporting for Tangible Capital Assets, the City recorded the transfers of assets from Enwave as at 2004 and 2008, the dates the assets were put in use as part of the City's water system. These changes have been applied retroactively and prior periods have been restated. (See Note 2(b) of the Consolidated Financial Statements).

There has been a significant decrease in GBE earnings year over year due to lower earnings at Toronto Hydro Inc., as the prior year included a $118M gain on sale of Toronto Hydro Telecom.

Additional information regarding the City's remaining GBEs as at December 31, 2009 including 2009 transactions for all GBEs with the City as well as condensed financial results, are provided in Note 7 and Appendix 1 to the Consolidated Financial Statements.

Accounts Payable

The breakdown of accounts payable and accrued liabilities at December 31, 2009 with 2008 comparatives is as follows:

(in thousands of dollars)

Accounts Payable	2009	2008
Local Board trade payables	453,652	465,946
City trade payables and accruals	819,882	770,536
Payable to school boards	143,902	157,376
Provision for tax appeals & rebates	411,997	397,182
Credit balances on property tax accounts	63,889	65,692
Payroll liabilities	130,410	114,086
Total	**2,023,732**	**1,970,818**

Local board trade payables were lower in 2009 primarily due to decreases in Toronto Transit Commission (TTC) trade payables for $12M. City trade payables and accruals are higher due to increases in construction holdbacks ($21.2M), higher accruals at year end for Parks ($11M), Planning ($16M) and various other areas. The provision for tax assessment appeals increased by approximately $14.8M primarily as a result of unprocessed vacancy, charitable and heritage rebates. The decrease in credit balances on property tax accounts is due to refunds being issued throughout the year thus reducing the outstanding credit balance. Payroll liabilities were higher as an additional day's pay was accrued in 2009.

Deferred Revenue

Deferred Revenue decreased by $343M to $1.6B (2008: $1.9B) primarily as a result of:

- a decrease in obligatory reserve funds ($197.6M) for Public Transit and Water & Wastewater used for capital purchases;
- a decrease due to funds from Investing in Ontario Act ($238M) taken into income in 2009; and,
- an increase due to funds received from Provincial government for Ontario Bus Replacement Program (OBRP) $21.5M which remained unspent at the end of the year.

Other Liabilities

Other Liabilities increased by $27.3M to $384.5M (2008: $357.2M), mainly as a result of:

- an increase in the property and liability claims provision ($13.8M);
- increases in Toronto Transit Commission (TTC) in unsettled accident claims ($30.9M); and,
- decreases due to release of deposits held for Exhibition Place and National Trade Centre ($11.9M).

Net Long-Term Debt (excluding TCHC Mortgages)

Net long-term debt increased by $57M to $2.8B (2008: $2.7B) as follows: issuance of debt totalling $317M by the City, offset by net debt repayments for TCHC ($5M) and interest earned on sinking funds totalling $254M.

Employee Benefit Liabilities

During the year, a full valuation of employee liabilities was performed using updated assumptions. As a result of this valuation, the gross employee benefits liability (identified as "Total employee accrued benefit obligation" in Note 15 of the Consolidated Financial Statements) decreased by $368M to $2.5B (2008 - $2.8B). Accounting standards however, require that actuarial gains and losses are amortized over the remaining service lives of the employee group, and therefore the net liability recorded in these financial statements will not show the full impact of this improvement right away, but will show this over the next 13 years.

The net employee benefit liability actually increased by $80M to $2.7B (2008 - $2.6B), as the prior years' amortization of actuarial losses exceeds the amount of the gain reflected in 2009. The $80M increase is largely due to:

- decrease in the non-OMERS pension plan liabilities ($40M);
- decrease in sick leave benefits ($39M);
- increase in workers' compensation benefits ($24M);
- decrease in post-employment benefits ($313M); and
- change in unamortized actuarial losses to unamortized gain ($448M).

Additional information is provided in Note 15 of the Consolidated Financial Statements.

Tangible Capital Assets

Reporting on tangible capital assets was a major undertaking by the City of Toronto to comply with the PSAB Standards 1200 and 3150. This is the first time this reporting has been done. This required a high level of analysis and collaboration to inventory the different types of assets, analyze the segments, and prepare costings, which in many cases were not available due to the age of the assets, and unavailability of invoices or other support. In order to estimate the historical cost of assets where no cost records were available, various techniques were undertaken to estimate the replacement or reproduction cost of the asset, then discounted back to the purchase date using construction price indices.

Note 1 to the consolidated financial statements outlines the significant accounting policies providing an overview of the policy of recording tangible capital assets.

The breakdown of tangible capital assets, as well as accumulated amortization, as at December 31, 2009 with 2008 comparatives are presented in Note 16 and Schedule 1. Tangible capital assets by entity are presented in Appendix 4.

During the year, consolidated asset additions totalled $1.8B, with the most significant portion being building and building improvements of $648M. This consists of $308M at the TCHC, $109M at the TTC, $38M at the BOG, and $192M at the City. The City's largest acquisition was the police training facility for $76M.

During the year amortization of tangible capital assets increased $274M to $1.1B (2008 - $797M). The majority of this increase, $248M represents the increase at the TTC, primarily as a result of increased amortization of vehicles.

Inventories and Prepaid Expenses

Inventories and prepaid expenses totalled $206M (2008: $167M). The increase was generated largely by increases in supplies for pandemic preparation and prepaid payments related to Ontario Works program.

Analysis Of Expenses And Revenues

Budgetary and Accounting Annual Surpluses

Municipalities plan and monitor their short-term financial performance in two different ways:

- budgets are prepared for each entity on a cash-requirements basis, with separate budgets for each fund; and
- financial statements are prepared for the consolidated organization on a full accrual basis.

Preparation and monitoring of cash-requirements budgets provides a clear measurement of cash raised and spent, and is an important annual financial control. During 2009 the City had a budgetary surplus of $359 million, which represents revenues in excess of expenditures in the City's operating fund.

The City also plans and monitors certain expenditures on a consolidated basis, and for the first time in 2009, adopted the new PSAB standards that recognize tangible capital assets in the consolidated statement of financial position. These full accrual values have influenced strategic, mid- to long-term plans, such as the City's management of employee benefits.

The full accrual consolidated annual surplus of $497 million differs from the operating fund annual surplus of $359 million as it:

- includes all entities rather than just the operating fund;
- capitalizes tangible capital assets;
- recognizes amortization of assets;
- does not recognize debt principal repayments; and
- records certain changes in the future employment benefits and landfill post-closure liabilities.

Consolidated Expenses

Gross consolidated expenses for 2009 totalled $9.9 billion (2008: $9.4 billion). The increase was generated largely by inflationary increases (wages, materials and contracted services), increased employee benefit liabilities, and increased interest charges on long-term debt.

Chart D EXPENDITURES BY OBJECT – CURRENT OPERATIONS

(in thousands of dollars)

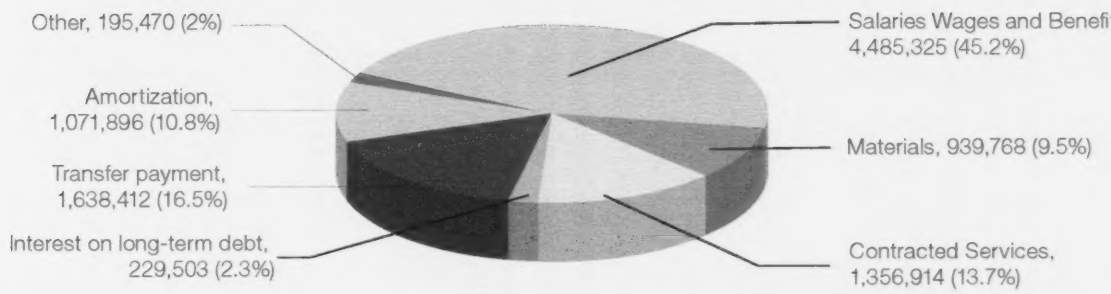

Other, 195,470 (2%)
Amortization, 1,071,896 (10.8%)
Transfer payment, 1,638,412 (16.5%)
Interest on long-term debt, 229,503 (2.3%)
Salaries Wages and Benefits, 4,485,325 (45.2%)
Materials, 939,768 (9.5%)
Contracted Services, 1,356,914 (13.7%)

Chart D breaks down the gross expenses by cost object. Salaries, wages and benefits accounted for the largest portion at 45.2 per cent of the total amount. It should be noted that principal repayments on debt are not included as they are considered financing transactions for accounting purposes and are not considered expenses.

Note 21 to the Consolidated Financial Statements provides a consolidated (operating and capital) summary of expenses by object.

Table 2 provides a comparison of 2009 Consolidated Net Revenue by program versus budget, and a comparison with the previous year's actuals.

Table 2

Consolidated Net Revenue by Program

(in thousands of dollars)

	2009 Budget	2009 Actual	Difference	Change	2008 Actual Restated
Revenues					
Taxation	3,558,901	3,655,880	96,979	2.7%	3,469,974
Taxation from other governments	77,427	100,179	22,752	22.7%	80,710
User Charges	2,460,319	2,309,164	(151,155)	(6.5%)	2,108,423
Funding transfers from other governments	2,848,559	2,901,868	53,309	1.8%	2,731,174
Development Charges	129,950	83,144	(46,806)	(56.3%)	56,234
Investment Income	164,590	257,883	93,293	36.2%	240,738
Net Government Business Enterprise Earnings	-	108,657	108,657	100.0%	233,926
Other	1,203,745	997,716	(206,029)	(20.7%)	816,661
Total	**10,443,491**	**10,414,491**	**(29,000)**	**(0.3%)**	**9,737,840**
Expenses					
General Government	776,662	803,504	(26,842)	3.3%	794,328
Protection to persons and property	1,500,680	1,525,235	(24,555)	(1.6%)	1,466,272
Transportation	3,040,322	2,658,084	382,238	14.4%	2,578,243
Environmental services	979,527	873,675	105,852	12.1%	855,105
Health services	383,390	376,463	6,927	1.8%	375,904
Social and family services	2,023,056	1,946,444	76,612	3.9%	1,803,135
Social Housing	694,317	837,786	(143,469)	(17.1%)	651,022
Recreational and cultural services	801,144	769,109	32,035	4.2%	770,880
Planning and development	45,652	126,988	(81,336)	(64.1%)	144,655
Total	**10,244,750**	**9,917,288**	**327,462**	**3.3%**	**9,439,544**
NET REVENUE/ANNUAL SURPLUS	**198,741**	**497,203**			**298,296**

The budget column included in the Consolidated Financial Statements reflects the approved budget at the time the tax levy is approved by Council. Although City Council approves revisions to the budget throughout the year, these amendments are not reflected in the budget column shown in the Consolidated Financial Statements. The budget is however, adjusted to exclude purchases of tangible capital assets from expenses, to also exclude debt principal from revenues and expenses, and to allow for amortization of tangible capital assets, as shown in Note 20.

Table 2 reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities. It indicates that the consolidated operations generated a surplus of $497M. The contributory factors are as follows:

- City operations contributed $33.4M towards the surplus due to prudent expense management as well as the implementation of cost saving strategies introduced in the fourth quarter which included hiring slowdown and expense constraints.
- Agencies, Boards and Commissions (ABCs) collectively reported a favourable net variance of $4.2M.
- Corporate Accounts contributed $317M due to considerable savings in expenses and higher than budgeted revenue as follows:
  - Prudent financial management including labour disruption, wage settlement savings, reduced assessment appeals-related tax reductions and higher investment earnings; ($178M).
  - At the same time, other tax and non-program revenue increases and expense decreases realized about $139M in budgetary savings.
- This was offset by increase in the PSAB accrual for adjustments for retirement and post employment benefits ($120M) and a decrease in legacy pension plan liabilities ($40.2M) due primarily to the rebound in the equity market. Both of these items are non-cash items that are not included in the City's budget.
- Principal Debt Repayments of $292M are budgeted as an expense but are accounted for on the financial statements as repayment of a liability.
- Tangible Capital Asset purchases of $1.9B are no longer treated as expenses but as asset purchases, while amortization of these assets of $1.1B is recorded in these consolidated financial statements as an expense.

Expenses

A breakdown of other contributing factors by function is as follows:

- The General Government spending was higher than budget primarily due to adjustments to the budget for debt repayments which were higher than actual repayments during the year. This was offset by the tax deficiencies/ assessment appeal being $53M under budget due to the fact that a large number of pending appeals for 2008 and prior years were closed by the Assessment Review Board (ARB) or withdrawn by the appellants; the Solid Waste Management Rebate program issued lower than expected rebates, resulting in saving of $29.6M; savings also resulted from Council's decision of adopting the amended compensation policy for management/non-union staff, ratifying the COLA increase for union staff, management of the labour disruption, other cost saving strategies.

- Actual costs for protection to persons and property (Police, Fire, Building Services and Conservation Authority levies and the Provincial Offences Act Courts) include increased cost in Fire for WSIB occupational illness claims ($3.8M) offset by under spending in salaries due to delayed hiring of a new class of recruits (39 vacancies – $2.6M), PSAB adjustments for employee benefits, and TCA adjustments.

- Transportation includes Roads/Traffic signals maintenance and Transit. Transportation services spending was lower than budget due primarily to savings in salaries and budgets arising from staff vacancies ($7.2M); under spending in winter maintenance service ($0.7M); utility cut repair activities ($3.4M); roadside cleaning and red light camera programs ($2.0M); and lower fleet fuel charges ($0.7M). These favourable variances were partially offset by increased expenses of $1.9M for de-icing salt arising from the winter conditions earlier in the year, as well as the increasing commodity price of salt. Toronto Transit Commission was under spent by $17.7M due to energy cost savings arising from lower than anticipated rates and reduction in accident claims expenses.

- Environmental services spending was lower than budget due primarily to vacant staff positions ($24.7M); lower cost for road repairs managed by Transportation Services; utility savings from efficiencies; overall slowdown in the economy affected the production of waste and resulted in lower than expected tonnage.

- Social and Family Services spending was lower than budget by $76.6M due to a higher proportion of single people compared to families in the social assistance caseload; average actual monthly caseload of 88,506 compared favourably to the budgeted caseload of 90,000; unanticipated one-time Provincial Cost of Administration (COA) funding of $3.0M; delayed hiring and general under spending partially offset by overspending in Ontario Disability Support Program (ODSP) due to an increasing ODSP caseload.

- Social Housing spending was higher than budget primarily due to additional spending at TCHC for the funds received from the Province for Social Housing Renovation and Retrofit Projects(SHRRP Funds) for $55M and higher than budgeted spending for provincial downloading $50M and adjustment to budget for debt repayments $39M.

- Recreational and cultural services spending was lower than budget due primarily to savings in salaries due to labour disruption and implementation of cost restraint measures.

- Planning and development spending was higher than budget due primarily to consolidation of Toronto Portlands Company (previously TEDCO), Build Toronto and Invest Toronto in total $26.5M; proportionate consolidation of Toronto Waterfront Revitalization Corporation (TWRC) $12.5M, and consolidation of Business Improvement Areas (BIAs) $18M.

Revenues

While the annual budget process focuses primarily on property tax increases, it must be emphasized that property taxes are only one of the City's many revenue sources. In 2009, property taxes made up 40.97 per cent (2008 – 41.98 per cent) of the City's operating revenue.

Property taxes were higher than budget due to the following:

- Supplementary and omitted assessments received from MPAC generated revenues which exceeded expectations by $29.4M;
- Approximately $17.8M represent Business Improvement Area (BIA) levies which were approved by Council to fund operational expenditures in the same amount, resulting in a net zero overall budget;
- Municipal Land Transfer Tax (MLTT) revenue exceeded budget ($18.5M) due to higher than expected sales and registration of properties in 2009; and
- Personal Vehicle Tax (PVT) revenue exceeded budget ($5.4M) due to the catch-up provision experienced in 2009. These are amounts which were collected in 2009 for individuals who avoided PVT charges in 2008 by purchasing their stickers before September 2008 when the program began.

Taxation from other government (Payment in lieu of taxes) exceeded budget by $22.7M as follows:

- $6M as a result of lower than anticipated provision requirement for pending appeals and provision for outstanding PIL receivable;
- $12M for 2008 and prior years. Outstanding pending appeals closed by the ARB or withdrawn by the appellants, in addition to other reductions to the provision;
- $2.8M as a result of anticipated assessment reductions due to conversion of federally owned properties to taxable was not realized during 2009; and
- $0.5M as a result of a grant payment received by the University of Toronto.

User fees were under budget by $151.2M due to:

- Toronto Transit Commission ridership being slightly under budget coming in at a projected 471.2M riders versus a planned ridership of 473M, with 1.8M fewer rides compared to budget and a lower than anticipated average fare due to higher usage of Adult passes and increased usage of concession fares amounting in total to ($68.8M);
- Underachievement of revenues for community planning development applications ($2.9M), building licenses and permits ($10.8M), cat and dog licenses ($1.3M) due to economic conditions;
- Lower than projected revenue of $2.7M mainly from water sales revenue attributable to lower consumption throughout the summer months due to the cool wet weather;
- Lower than forecasted Red Light Camera (RLC) infraction revenue ($2.4M) due to forecast of 54,737 charges versus actual of 27,500;
- Drop in revenue for recreational programs ($8.4M) and golf course revenue ($4.2M) as a result of summer labour disruption; and
- Underachieved revenues from recovery of utility cut costs ($4M) due to drop in construction activities.

Funding Transfers from other governments were over budget by $53.3M primarily due to:

- Funding for Transit Capital was $209.4M over the original revenue budget of $57.9M approved by Council. The budget was revised during the year however the financial statements present the original approved budget. This was offset by lower subsidies for the following:
- Operating subsidy variance of $94.6M in Shelter, Support & Housing Administration due to:
  - lower subsidies of $98.3M in Affordable Housing Program as the related expenditures (100 per cent funded) were lower;
  - offset by higher Homelessness Partnership Initiative (HPI) funding of $1.3M as the related expenditures (100 per cent funded) were higher;
  - offset by $0.6M higher subsidy than budget for Let's Build Affordable Housing Program funding provided by the Province at 100 per cent to match the expenditures; and
  - offset by $1.7M higher subsidy in Hostels Services due to increase in hostels per-diem subsidies compared to budget (33,392 days over budget).
- Operating subsidy variance of $33.3M in Toronto Employment and Social Services (TESS) is mainly due to:
  - Actual eligible expenditures for Ontario Works (OW) Financial Assistance Program lower than budgeted expenditures of $42.2M, resulting in lower subsidy than budget by $31.8M ($42.2M at 80 per cent subsidy); and
  - Combined subsidies for OW Cost of Administration and other one-time programs were capped to the maximum approved amount per service agreement, and the actual contracted subsidies were lower by $1.3M than budget for year 2009.

- Operating subsidy variance of $6.2M in Long-Term Care Homes & Services is mainly due to lower than budgeted actual subsidies earned for City operated homes, Homemakers and Nursing Services, Supportive housing and Community support programs run by the division.
- Lower than budget provincial grant revenue of $2.5M from Ministry of Health and Long Term Care (MOHLTC) mainly in the Central Ambulance Communication Centre (CACC); and lower subsidies in Children Services ($1.6M) and Social Development, Finance & Administration ($2M).

Development Charges revenues applied to capital spending were under budget by $46.8M due to underspending on capital projects attributable to the inability to find and secure suitable sites, delays in construction start-up and deferral of work, and the impact of labour disruption. As an obligatory reserve, development charges are recognized as the funds are spent for the intended purposes.

Investment earnings were higher than budget by $93.3M due to higher than forecasted rate of return and lower interest allocated to Reserve Funds as per policy.

Other Revenues were lower than budget by $206M primarily due to:

- Lower than budgeted recoveries and contribution for capital expenditures ($140M);
- Actual transfers of $7.5M from the National Child Benefit Supplement Reserve Fund to operating were $18.5 million less than budgeted;
- Actual transfers from the Social Housing Federal Reserve Fund to operating were $21M less than budgeted;
- Budget overestimated for Facilities' revenues for permanent property rents ($7.5M);
- Solid Waste: lower recyclable tonnage and lower market prices for City's recyclable commodities due to the recession in 2009 ($13.4M); and
- Lower other recoveries ($12.8M).

The five year summary of revenues outlined in Table 3 demonstrates that property taxes continue to be the slowest growing revenue source for the City. During this period, assessment growth has been relatively low. In addition, the City has been limited by provincial legislation and Council policy from extending tax rate increases on the commercial, industrial and multi-residential assessment base on the same basis as the residential base. The commercial, industrial and multi-residential property classes represent approximately 56.7 per cent of the City's tax revenue base.

As a result of the slow growth of property tax revenue, more reliance has been placed on user fees, senior government transfers and other sources of revenue to meet expenses and minimize property tax rate increases. Council's approval of the Municipal Land Transfer and Personal Vehicle Ownership taxes in October of 2007, both of which were implemented in 2008, are examples of the action taken by the City to diversify its revenue sources to address this issue.

Table 3

Consolidated Revenues – 5 year Summary

(in thousands of dollars)

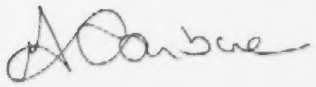
Revenues	Avg. Annual Increase	2009	2008	2007	2006	2005
Property taxes	3.38%	3,520,450	3,369,949	3,285,947	3,187,263	3,082,009
Municipal land transfer tax (MLTT)	n/a	183,892	165,743	-	-	-
Personal vehicle Tax (PVT)	n/a	51,717	14,992	-	-	-
User charges	6.93%	2,309,164	2,108,423	1,966,890	1,856,407	1,766,557
Government transfers	9.52%	2,901,868	2,731,174	1,952,047	2,254,726	1,831,399
Other	13.16%	1,447,400	1,347,559	1,655,652	1,236,089	1,045,713
Total	**7.75%**	**10,414,491**	**9,737,840**	**8,860,536**	**8,534,485**	**7,725,678**
Percentage Increase		6.95%	9.90%	3.82%	10.47%	

Risks and Mitigates

The City continues to face a number of risks that could have a negative impact on the City's financial future. These risks include: lack of long-term dedicated funding to assist the City in addressing its infrastructure deficit including building and expanding the transit system to meet the City's strategic goals and accessing non-property tax revenue sources that grow with the economy to ensure long term sustainable funding.

In 2009, the City made significant progress to address these risks by continuing to implement its Long Term Financial Plan. Appendix A lists eight (8) specific financial issues/risks and the actions taken in 2009 to address them.

Highlights include: negotiating a new Illness or Injury Plan with TCEU Local 416 and CUPE Local 79, full funding of significant components of the Transit City initiative, and agreement from the Province to fully fund their 50 per cent share of Ontario Works administration costs.



Giuliana Carbone
Treasurer

Toronto, Canada
May 15, 2010

APPENDIX A: KEY ISSUES/RISKS FACING THE CITY OF TORONTO

Issue/Risk	Actions taken in 2009	Actions Planned for 2010 & Beyond
City has a higher cost structure than other municipalities in the GTA	• Continuous improvement initiatives and programs continued, to ensure appropriate use of resources. • City Council continued to adopt strict budget increase guidelines for City divisions and ABCs. • Cost containment measures remained in place. • Continued to develop the new Financial Planning, Analysis and Reporting System, approved by Council in 2007 for implementation (of Interim Plan) in 2011 for the 2012 budget process. The new system sets the foundation for multi-year performance/service-oriented operating budgets. The system will: o track and report performance measures and service level indicators; o align complement management and complement planning processes; o assess cost performance efficiency; o enable better alignment of the City's limited resources to Council priorities; o provide flexibility to incorporate and track long-term service planning initiatives; o establish the framework to balance service levels and priorities with affordability. • Negotiated a new Illness or Injury Plan (IIP) for TCEU Local 416 and CUPE Local 79 which resulted in all employees hired after July 31, 2009, not being provided with a sick pay plan. In addition, existing employees had a one-time option to switch to the new IIP plan. As a result, 40% of employees switched to the new IIP plan resulting in a net reduction in current and future sick leave liability of $174.1 million.	• Maintain continuous improvement initiatives including efficiency reviews, and enhanced performance measures and benchmarking. • Continue to implement Program Reviews. • Continue to develop and implement the new Financial Planning, Analysis and Reporting System to improve budget analysis and program rationalization. • Apply aggressive budget reduction targets for 2010 and 2011. The City's goal is to reduce its budget by 10% or $340 million over 2 years. Strategies to achieve reduction targets include efficiency measures, revenue strategies, service changes and service rationalization. • Internal Audit and Auditor General continue to conduct audit reviews with a view to maintain and improve internal controls and identify opportunities for further efficiencies. • Continue to benchmark operations with other Ontario municipalities. In 2010, expand benchmarking efforts to Calgary, Winnipeg and other world cities. Continue to identify additional benchmarking opportunities.
Demands for growth as laid out in the Official Plan or other Sectoral and Program plans are not adequately funded	• Move Ontario Trust was established in March 2006 for the purpose of holding, investing and disbursing funds to the Toronto York Spadina Subway Expansion project. A total investment of $870 million from the provincial government plus $75 million from the federal government has increased to approximately $1 billion at the end of 2008. These funds are not included in the City's Financial Statements as they are held in a separate Trust Fund. • April 1, 2009 the Province of Ontario announced full funding for 3 significant components of the Transit City plan: the $4.6B Eglinton line from Kennedy Station to Pearson airport; the $1.2B Finch West line from Humber College to Don Mills Subway station; and the $1.4B Scarborough RT rehabilitation and extension. Although the timelines have been extended as part of the 2010 Ontario Budget, the Provincial commitment to these projects remains.	• Continue to estimate the costs related to growth plans. • Continue to urge the Federal Government to: o establish a permanent, federally funded National Transit Strategy o deliver a national action plan on housing and homelessness – National Housing Strategy o share the equivalent value of 1 cent of the GST with municipal governments.

Issue/Risk	Actions taken in 2009	Actions Planned for 2010 & Beyond
There is a variability in certain program expenditures from year to year, some of which are vulnerable to economic down turns and interest rate fluctuations	• In 2007, the Province (through the Provincial Municipal Fiscal and Service Delivery Review – PMFSDR) agreed to fully fund the Ontario Disability Support Program (ODSP) and the Ontario Drug Benefit (ODB) program. ODB upload was completed in 2008 and the ODSP will be completed in 2011. Additionally, the Province agreed to: upload the cost of Ontario Works and Court Security by 2018; and, fully fund their 50% share of Ontario Work (OW) Cost of Administration (COA) starting in 2010.	•Continue to work with the Province to operationalize the upload and refine the relationship regarding social and related services. The upload of: ODB was completed in 2008; OSDP will be completed in 2011; OW benefit costs begins in 2010 & will be completed by 2018; OW COA starts in 2010. • Through the Social Service upload, the Province has re-established the principle that income support programs should not be funded from the property tax base. As such, the City will continue its discussion with the Province regarding its funding responsibilities for Social Housing. • Continue to work with the Province on the agreed upload of court security costs by 2018. • Closely monitor key economic indicators and market conditions to identify trends and forecast impacts on expenditures and revenues.
Business property taxes are not competitive with the surrounding urban area (905 area code)	• The City has continued the implementation of "Enhancing Toronto's Business Climate" initiative, adopted by City Council in October 2005 – a plan to reduce the tax ratios for businesses (i.e. commercial and industrial) and multi-residential properties to 2.5 times the residential tax rate by 2020 (a 15 year plan); and further, to provide for an accelerated reduction in tax rates for smaller businesses, with a target of 2.5 times the residential rate by 2015 (a 10 year plan). Since the program took effect, the estimated benefit to businesses is approximately $250 million.	• Based on tax ratios adopted by City Council in 2009 and 2010, the City has accelerated its move to lower tax ratios for business and multi-residential properties. If continued, this trend will result in the City reaching its tax reduction targets of 2.5 times the residential rate 2-3 years earlier – 2013 for small businesses instead of 2015, and 2017 instead of 2020 for the rest of commercial, industrial and multi-residential properties.
The City lacks adequate revenue sources to fund its municipal responsibilities	• Funding for capital projects from other orders of government has been secured over the years – e.g. Share of Gas Tax ($320 million per year); Transit City ($9 billion); Economic Stimulus Project funding ($460 million 2009 to 2011); one-time transit funding between 2006 and 2009 has ranged from $58 million to $238 per year.	• Update the Long Term Fiscal Plan in 2010 • Conclude a Toronto-Ontario partnership agreement on permanent, sustainable transit operating funding by December 2010. • Continue to work with the Provincial and Federal governments to secure long term permanent funding solutions, such as a share of sales tax revenues that grow with the economy, a National Housing Strategy and a National Transit strategy.
Improper funding of Provincial cost-shared programs has resulted in significant financial pressures to the City	• Received provincial commitment to fund their share of administration costs of Ontario Works.	• Continue to lobby for the Province to honour its cost sharing formulae. • Continue to highlight costs and requirements in areas of joint responsibility, such as social housing and transit.
City's investment in ageing infrastructure has been lagging	• The City continued to plan for capital on a 10 year basis. • Continued to invest funds in State of Good Repair Reserve Fund. • Completed the data gathering for tangible capital assets, for recording in the 2009 consolidated financial statements.	• Approval of firm 10-year Capital Plan. • Continue to increase direct operating budget contribution to capital program to offset a portion of debt requirements. • Complete the Capital Asset Accounting Project. • Further enhance asset management planning. • Continue to seek funding for transit projects from provincial and federal governments.
Employee benefits and other long-term liabilities are not adequately funded	• The City completed full actuarial reviews of its employee benefit plans. • The City negotiated an Illness and Injury (IIP) Plan and provided existing employees the one time option of switching to this plan and stopped the Sick Pay Plan for employees hired after July 31, 2009.	• Further implementation of approved strategies to reduce employee benefit liabilities. • Further implementation of cost containment and employee education strategies consistent with recommendations made by the Mayor's Fiscal Review Panel and the Auditor General's Office.